

Two-wheelers



2000: Scooters goodbye!

2013: Scooters re-Activa-*ted*...



2013: Scooters re-Activa-ted...

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Prices as on 13 December 2013

Value migrates from outmoded business designs to new ones that are better able to satisfy customers' most important priorities. Developing a strategic understanding of how current and prospective customers change through time could serve as a compass that would point to the best direction for any company seeking to create value growth. Changing customer priorities trigger the value migration process, creating opportunities for new business designs. Incumbents frequently ignore or overlook such opportunities, presenting significant openings for newcomers.

In this report, we present the process of value migration in India's two-wheeler industry over the last two decades and the changing trend for the coming decade.

Two-wheelers



Re-Activa-ted: Value migrating to scooters

HMCL, TVSL well seated; BJAUT chooses to stay out

- Changing customer preferences are driving value migration from motorcycles to scooters in India. In 1HFY14, the share of scooters was 23.5%, up from 12% in FY07. In the economically developed states, the share of scooters is higher at ~34%, and is growing.
- Around 51% of the dealers we surveyed expect the scooters share to be over 40% by 2020. We estimate the scooters share at 37% by 2020, implying 20% CAGR in scooter volumes.
- HMCL and TVSL are prepared for the transition, while BJAUT has strategically decided to stay out to focus on the global motorcycle industry.

Value migrating to scooters, led by changing customer priorities

- Industries evolve, driven by changing customer priorities, challenging incumbents and opening opportunities for proactive business design, in turn resulting in a new industry order.
- Lack of proactive business design from Bajaj Auto (BJAUT; incumbent leader in geared scooters) had allowed Hero Honda (now Hero MotoCorp; HMCL) to capture a large part of the value outflow from scooters to motorcycles. Geared scooters became extinct in India by the mid-2000s.
- We are witnessing early signs of value outflow from motorcycles in the urban markets to automatic scooters, with scooters growing at ~23% CAGR (twice the growth rate for motorcycles) over the last five years.

Resurgence of scooters led by automatic segment

- Traditional geared scooters dominated till the mid-1990s due to lack of credible competition. The entry of Japanese players brought reliability, durability and fuel efficiency to motorcycles, resulting in shift towards motorcycles in the late-1990s and geared scooters becoming extinct by mid-2000s.
- The resurgence of scooters is led by the automatic scooters, offering convenience, universal appeal and narrowing of gap in mileage vis-à-vis motorcycles.
- With the launch of *Honda Activa* in the 2000s, acceptance of automatic scooters amongst men began growing. The share of scooters recovered from ~12% in FY07 to ~23.5% in 1HFY14 (v/s average of ~45% till the early 2000s).

Can share of scooters revert to historical level of ~45%?

- Globally, scooters constitute ~55% of the two-wheeler market (ex China and Africa). Excluding India, the share of scooters is at ~79% (including geared step-throughs).
- In India, scooter penetration in economically developed states has been higher at ~34%. Six states contribute ~60% of scooter volumes. Penetration of scooters is increasing in urban centres, while smaller towns are seeing increased acceptance.

Investors are advised to refer through disclosures made at the end of the Research Report.

- Around 51% of the dealers we surveyed expect the share of scooters to be over 40% by 2020.
- Historically, the share of scooters in India was ~45% for over 30 years till 2000. The experience of global peers and select developed states, and dealer feedback suggests that the share of scooters might once again increase to 40-45%.

Estimate share of scooters at 37% by 2020

- Based on our multi-model analysis, we expect scooter industry volumes to grow at ~20% CAGR over FY14-20, twice the growth rate for motorcycles. Overall two-wheeler industry volumes are likely to grow at 12% CAGR during this period.
- The share of scooters would increase to 37% by 2020, with annual sales of 10.7m units (equal to the current market size of the domestic motorcycle industry).
- While the share of scooters is likely to increase, we expect the dominance of motorcycles to continue, driven by increasing penetration in rural markets. Motorcycles fare better in rural areas, where road infrastructure is relatively poor, are more suitable for longer distance travel, and offer higher mileage (an important factor for cost conscious customers).

HMCL, TVSL well-seated

- Despite its late entry into the segment, **HMCL** is the second largest scooter player, helped by its differentiated positioning aimed at the youth. It plans two new launches in FY15, coupled with 25% capacity expansion to 900,000 units per year. **Buy** with a target price of INR2,680 (14x FY16E EPS).
- **TVSL** is getting its act together, with multiple launches in both the scooter and motorcycle space. Post the recent launch of *Jupiter*, TVSL has a complete portfolio of scooter offerings. The upcoming launch of *Scooty* upgrade would further strengthen its position. Initiating coverage with **Buy** and target price of INR85 (9x FY16E standalone EPS)
- For now, **BJAUT** would lose out due to this migration, as it has taken the strategic position of being 'a global motorcycle specialist'. **Buy** with a target price of INR2,255 (14x FY16E EPS).

Financials and Valuations

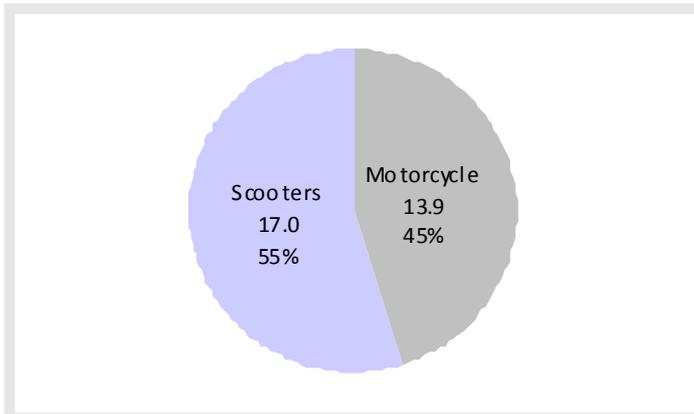
	EPS (INR)			EPS Gr. (%)			P/E (x)			EV/EBITDA(x)			RoE (%)			Div. yield (%)		
	FY14E	FY15E	FY16E	FY14E	FY15E	FY16E	FY14E	FY15E	FY16E	FY14E	FY15E	FY16E	FY14E	FY15E	FY16E	FY14E	FY15E	FY16E
Bajaj Auto	121.4	141.6	161.1	15.4	16.6	13.8	16.1	13.8	12.1	10.5	8.6	7.0	39.9	38.1	36.1	2.6	3.1	3.3
Hero Moto	116.8	161.7	191.5	10.1	38.4	18.5	17.5	12.7	10.7	9.9	8.3	6.9	43.1	48.8	45.2	3.2	3.4	3.7
TVS Motor	5.2	7.5	9.4	35.9	44.4	25.9	10.4	7.2	5.7	6.0	4.5	3.4	18.7	23.2	24.6	2.8	3.7	4.7

Source: MOSL

Story in charts

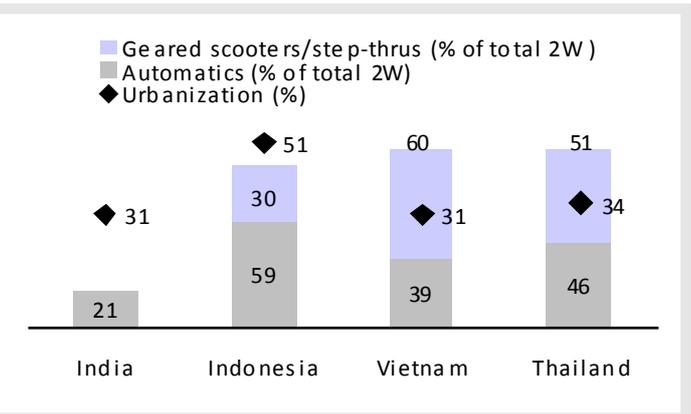
- ❶ Globally, two-wheeler markets (ex China and Africa) are skewed towards scooters, especially in Asia
- ❷ Scooter penetration is directly correlated with the level of development and urbanization
- ❸ Motorcycles gained share till early 2000s; automatic scooters driving resurgence of scooters now
- ❹ Prior to motorcycle invasion the share of scooters was ~45% till the early 2000s
- ❺ Automatic scooters have been growing and have outpaced motorcycle growth over the last 10 years

❶ Break-up of global two-wheeler market (m units) *



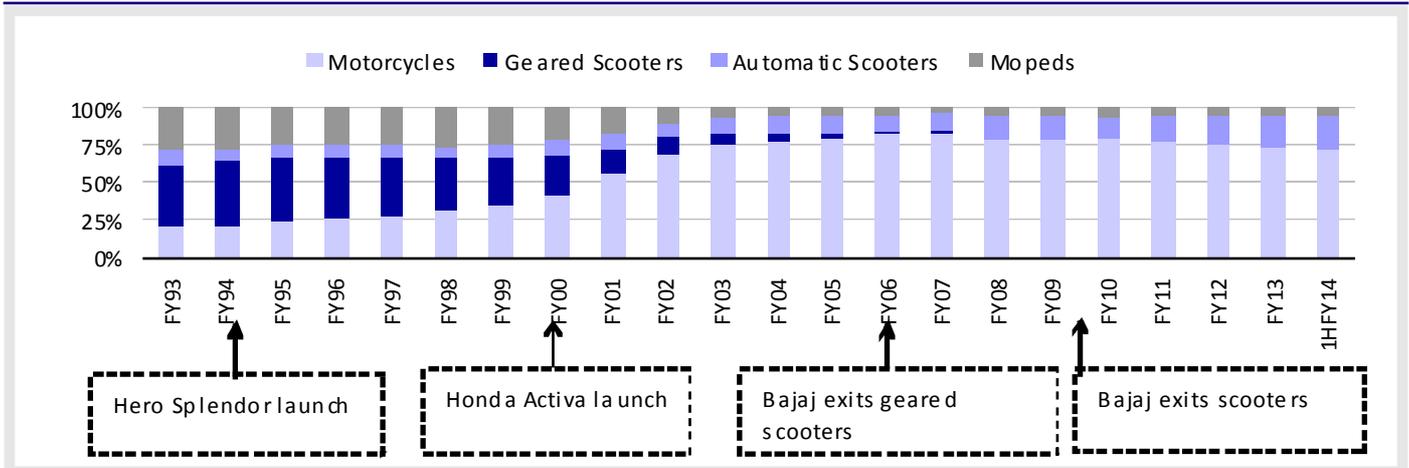
* Excluding China and Africa

❷ Urbanization and scooter penetration



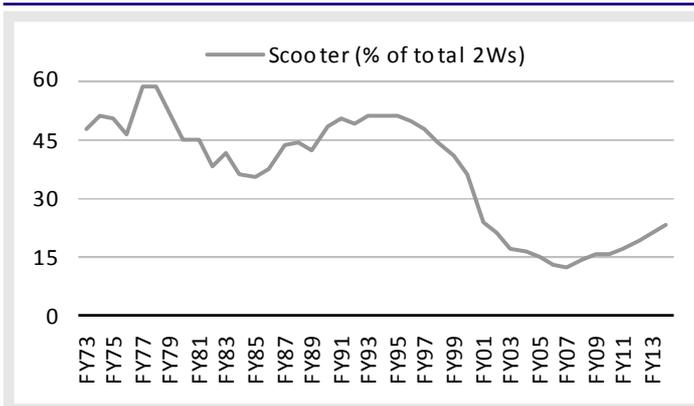
Source: Piaggio, Industry, MOSL

❸ Break-up of Indian two-wheeler market over the last two decades

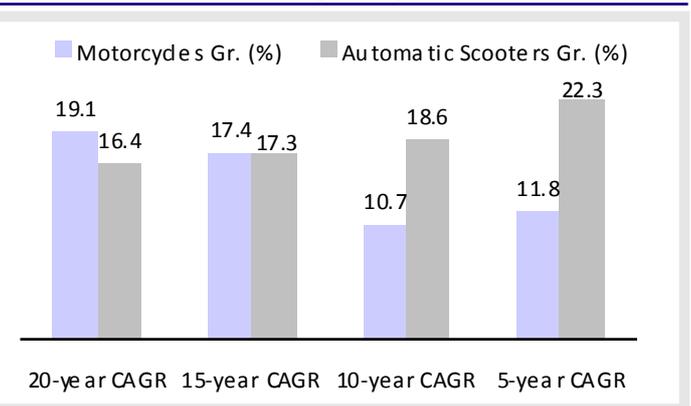


Source: Industry, MOSL

❹ Share of scooters over the last four decades



❺ Automatic scooters now growing faster than motorcycles

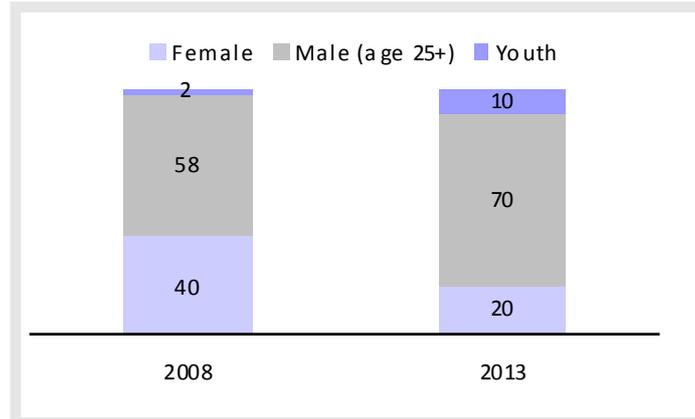


Source: Industry, MOSL

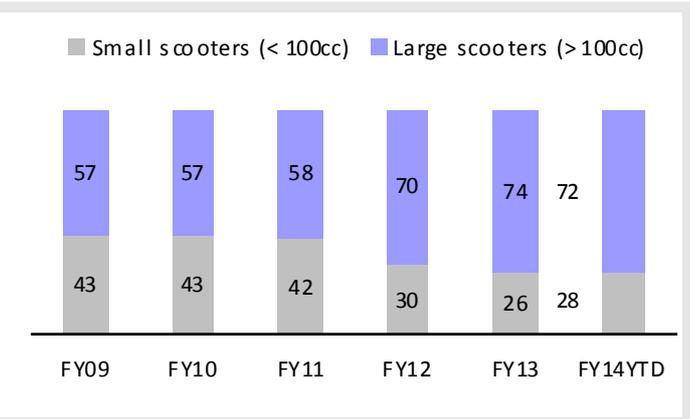
Story in charts

- ❶ Increasing share of men and young boys in scooter sales...
- ❷ ...reflected in rising share of bigger scooters
- ❸ Scooter contribution rising even in smaller towns
- ❹ Over 50% of dealers expect scooter share to be over 40% by 2020
- ❺ Scooter share in developed states is at ~34%, as against pan India average of ~23.5%
- ❻ We expect scooter volumes to grow at ~20% CAGR over FY14-20, 2x the growth in motorcycle volumes

❶ Break-up of scooter buyers

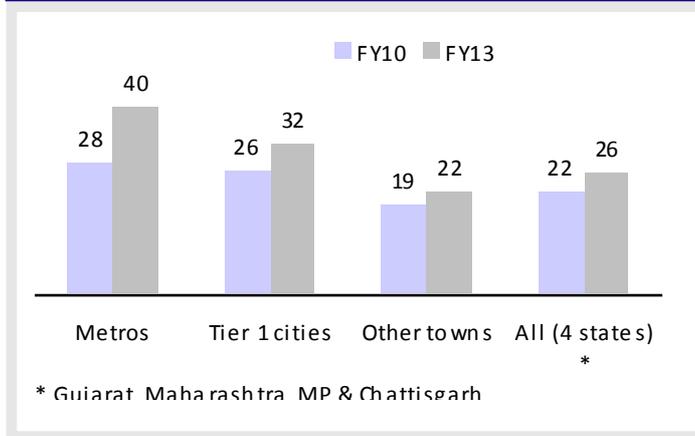


❷ Break-up of scooter sales by capacity

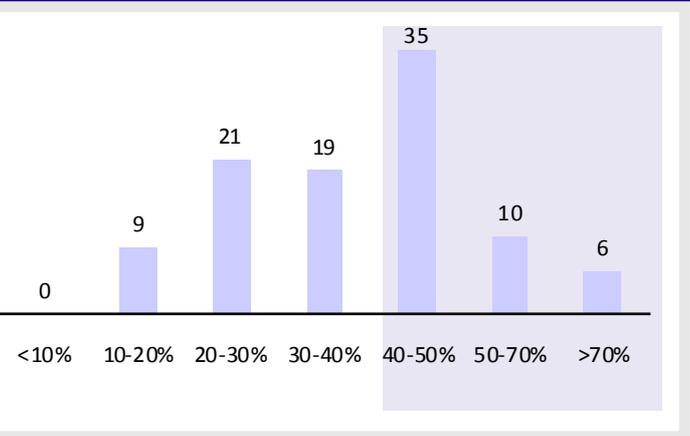


Source: Industry, MOSL

❸ Scooter contribution rising even outside the metros (%)



❹ Results of dealer survey on expected share of scooters by 2020



Source: Industry, MOSL

❺ Scooter share in developed states higher than all-India average

Ratio	FY11	FY13	1HFY14	Urban Popln (%)	Popln (m)
Kerala	29.5	42.2	51.2	47.7	33.4
Gujarat	25.9	30.6	33.3	42.6	60.4
Tamil Nadu	17.1	20.7	24.9	48.5	72.1
Delhi	18.6	29.7	35.3	97.5	16.8
Karnataka	23.8	28.0	31.6	38.6	61.1
Punjab	21.6	28.2	32.7	37.5	27.7
Maharashtra	24.4	27.8	30.6	45.2	112.4
Average of above	23.0	29.6	34.2		
Pan-India	17.4	21.3	23.5	31.2	1,210.2

Source: Industry, MOSL

❻ Our two-wheeler volume estimates

m units	FY14E	FY20E	CAGR (%)
Scooters	3.5	10.7	20.3
% of total	24	37	
Motorcycle	10.4	17.3	8.9
% of total	71	60	
Mopeds	0.7	0.9	5.0
% of total	5	3	
Total Industry	14.6	28.9	12.0

Source: MOSL

Two-wheelers: Changing landscape

Era	1970s-mid 2000s	From 1990s	From 2001	From 2000
Product	Bajaj Chetak	Hero Splendor	Hero Passion Pro	Honda Activa
				
Pricing (INR '000) ^	NA	48.74	50	51.25
Performance				
- Engine (cc)	145	97.2	97.2	109
- Power (bhp)	6.25	7.8	7.8	8
- Mileage (Kms/ltr)	35-40	60-65	60-65	40-45
- Ground clearance (mm)	145	159	165	153
Positioning	Family scooter, with conservative design	Focus on male user, good ride Family scooter, with quality & best mileage		Family scooter with improved aesthetics & higher mileage than geared scooters
Available Options	LML NV Lamby 150 Bajaj Priya Bajaj Cub Bajaj Super	Bajaj Platina Bajaj Discover Hero HF Dawn Hero HF Deluxe Honda CB Twister Honda Dream Yuga Honda Dream Neo Suzuki Hayate TVS Star Sport TVS Star City Yamaha Crux Yamaha YBR		Hero Maestro TVS Jupiter TVS Wego Yamaha Ray Suzuki Access Suzuki Swish Hero Pleasure TVS Scooty HMSI Dio HMSI Aviator
Comments	Starting trouble, lack of riding comfort over long distance	Good ride quality on bad roads, best mileage		Convenience due to Automatic transmission, universal appeal

^ ex-showroom Mumbai

Value migrating to scooters, led by changing customer priorities

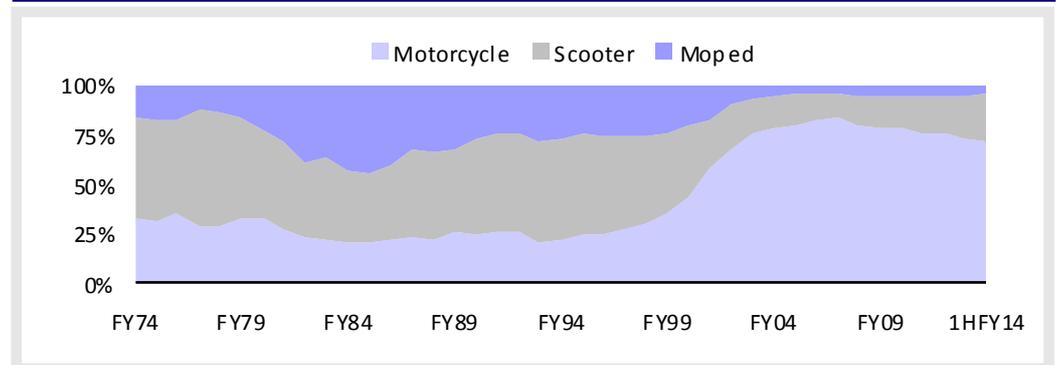
Greater convenience, multi-usage, improved mileage driving value migration

- Industries evolve, driven by changing customer priorities, challenging incumbents and opening opportunities for proactive business design, in turn resulting in a new industry order.
- Lack of proactive business design from Bajaj Auto (BJAUT; incumbent leader in geared scooters) had allowed Hero Honda (now Hero MotoCorp; HMCL) to capture a large part of the value outflow from scooters to motorcycles. Geared scooters became virtually extinct in India by the mid-2000s.
- The fact that BJAUT partly recovered by reacting to the changed world indicates that the incumbent can retain value by having a proactive business design.
- We are now witnessing early signs of value outflow from motorcycles in the urban markets to automatic scooters.
- While HMSI has captured a large part of this value migration by being the driver of this change, HMCL and TVSL are also well positioned. For now, BJAUT would lose out due to this migration, as it has taken the strategic position of being 'a global motorcycle specialist'.

Value migration in the Indian two-wheeler industry

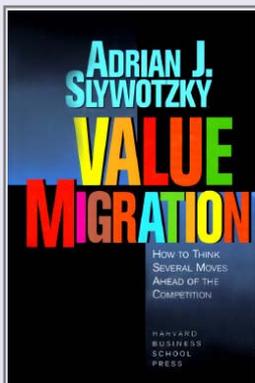
The Indian two-wheeler industry has evolved over the last four decades, with value migrating from geared scooters to motorcycles, and now to automatic scooters, driven by changing customer preferences and availability of new products. We analyze below various changes in the industry across different sub-segments.

Changing customer priorities drove value outflow from scooters (geared) and mopeds to motorcycles from the 1990s to the mid-2000s



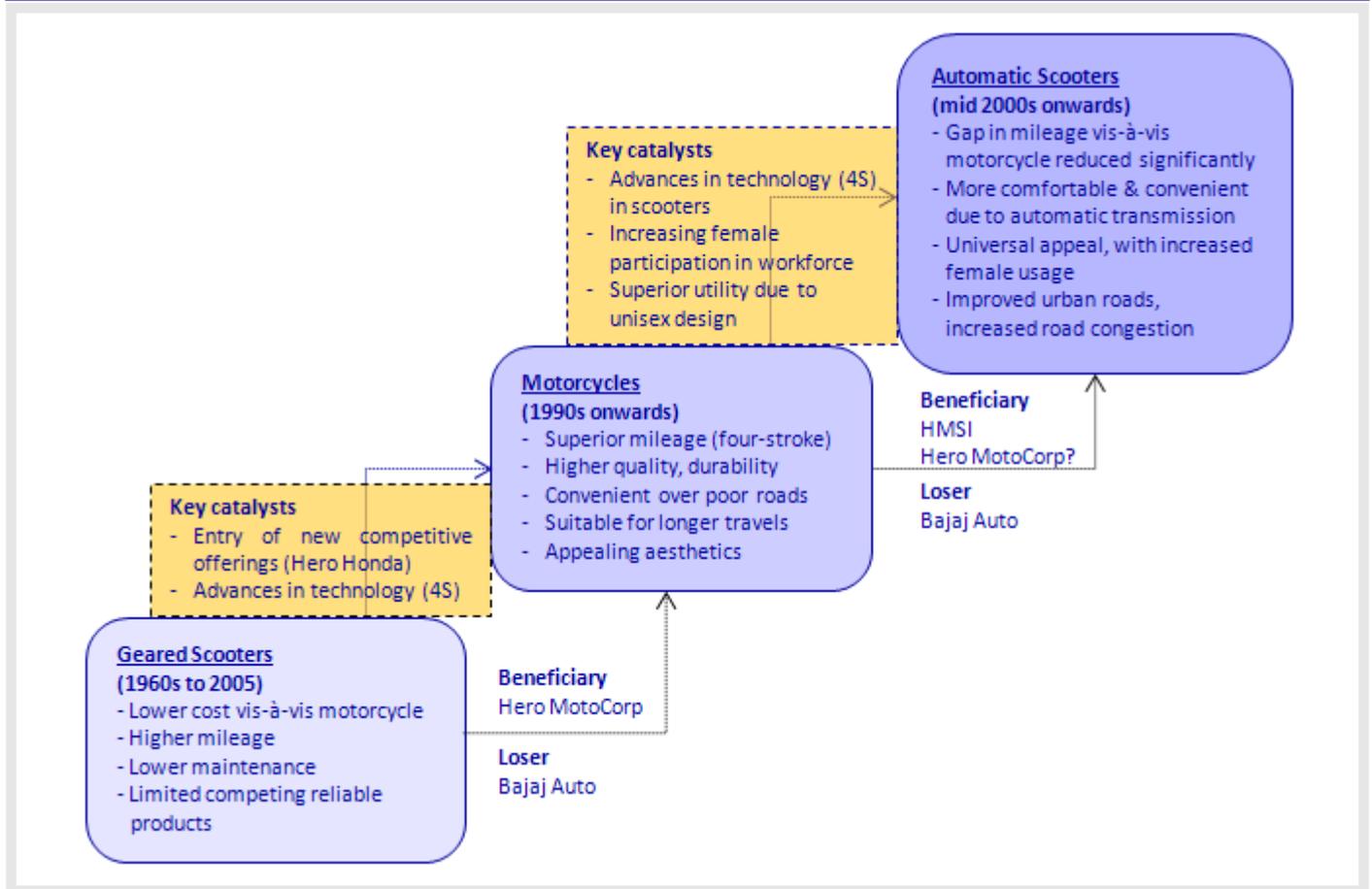
Source: Company, MOSL

Value migration: Is business design apt to cater to changing customer priorities?



In his book, 'Value Migration: How to Think Several Moves Ahead of the Competition', Adrian J Slywotzky describes how value migrates from outmoded business models to business designs that are better able to satisfy customers' priorities. Developing a strategic understanding of how current and prospective customers change through time could serve as a compass that would point to the best direction for any company seeking to create value growth. There are three phases of value migration - value inflow, stability and value outflow. These phases describe the relative value-creation power of the business model, based on its ability to satisfy customer priorities better than competitors and thus, earn superior returns.

Changing consumer priorities driving value migration in the two-wheeler industry



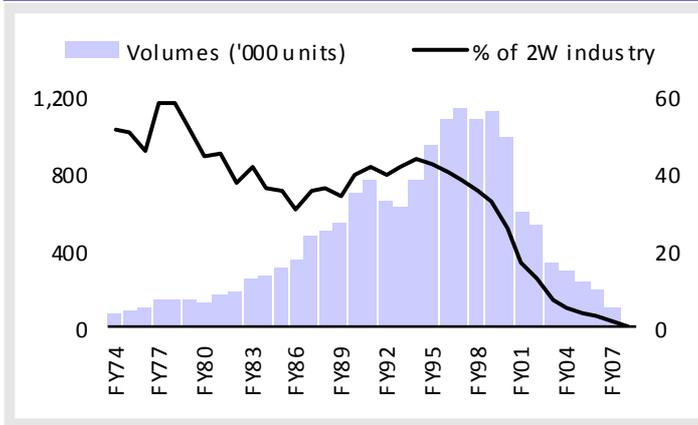
Source: MOSL

"Significant growth in disposable income and sharp rise in young consumers led to higher demand for better two-wheelers with good looks, greater power, high quality, but with fuel efficiency. These were the major drivers of shift from scooters to motorcycles." - BJAUT Annual Report, 1999-2000

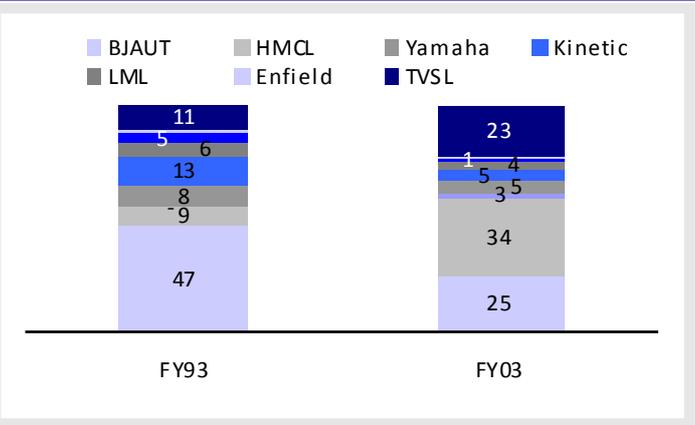
1. Geared scooters (Bajaj Chetak, LML NV, Lamby 150, etc)

- Value inflow (Phase-I: 1960s to mid-1980s):** The period between the 1960s to the mid-1980s was dominated by traditional metal-bodied geared scooters due to relatively lower cost, higher mileage and lower maintenance compared with the then available motorcycles like *Royal Enfield*, *Yezdi* and *Rajdoot*. Volumes of geared scooters are estimated to have grown at ~17% CAGR during the period between the 1970s to the mid-1980s.
- Stability (Phase-II: mid-1980s to mid-1990s):** The period between the mid-1980s to the mid-1990s saw geared scooters maintaining their dominance, just before the entry of Japanese players, with relatively superior product offerings. During this period, scooter volumes grew at a CAGR of ~7.5%, also aided by emergence of ungeared scooters (*Kinetic DX*, *Bajaj Sunny*, etc).
- Value outflow (Phase-III: mid 1990s to 2007):** This phase saw increasing dominance of four-stroke, fuel efficient, sturdy motorcycles, meeting the changing priorities of emerging India - liberalization ushered higher economic growth and urbanization. This resulted in continuous decline in geared scooters, as consumers shifted to motorcycles and automatic scooters. Production of *Bajaj Chetak* (synonym for geared scooters in India) was stopped in 2005.

Geared scooters became extinct by the mid-2000s



Domestic two-wheeler market share trend (%)



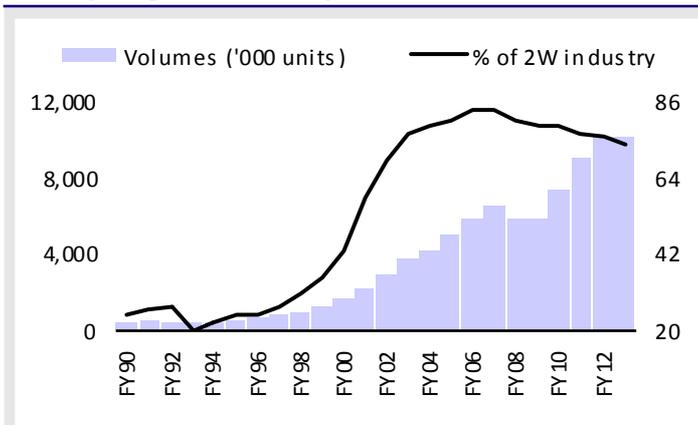
Source: SIAM, MOSL

2. Motorcycles (Hero Splendor/Passion, Bajaj Pulsar, Honda Shine, etc)

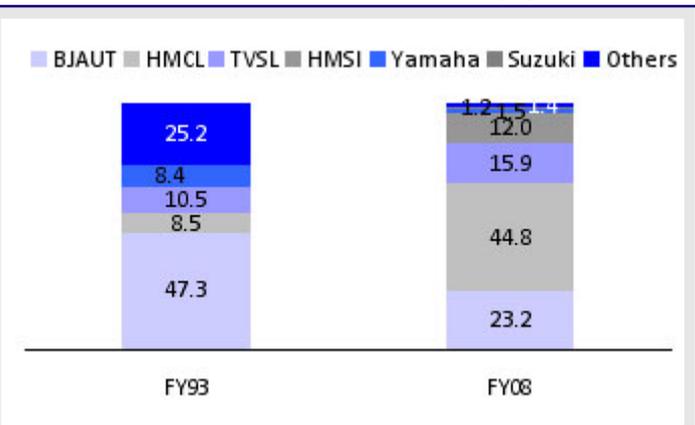
Fuel efficiency, suitability for poor roads key reasons for customer preference for motorcycles

- a. **Value inflow (Phase-I: 1990s to mid-2000s):** While motorcycles had been growing at ~20% CAGR during the value inflow stage of geared scooters, growth gathered momentum after the entry of Japanese players with four-stroke (4S) technology in 1985. It took almost 10 years for 4S motorcycles to find acceptance in India. The Indian motorcycle industry grew at ~22% CAGR over FY93-08, overtaking scooters in FY00. Value migrated towards motorcycles, with customer priorities being better mileage, superior quality (product and ride) and aesthetics.
- b. **Stability (Phase-II: mid-2000s onwards):** After strong growth during the 1990s to the mid-2000s, motorcycle volume growth moderated to ~12% CAGR over FY08-13. While in urban markets, motorcycles would have to compete with automatic scooters for new and replacement demand, growth in motorcycle volumes would be driven by increasing rural penetration.

Motorcycles gained at the expense of scooters in 1990s



Domestic two-wheeler market share trend (%)



Source: SIAM, MOSL

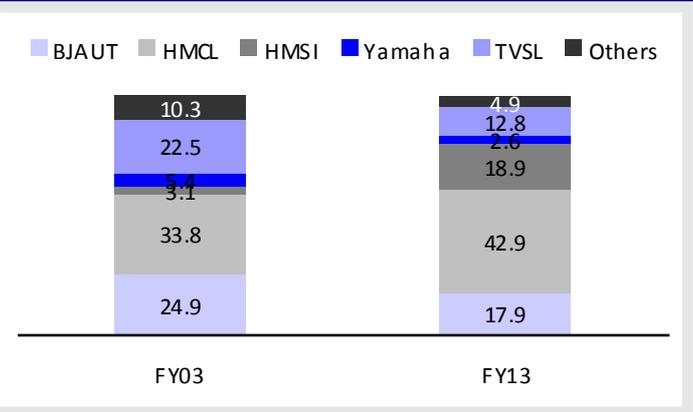
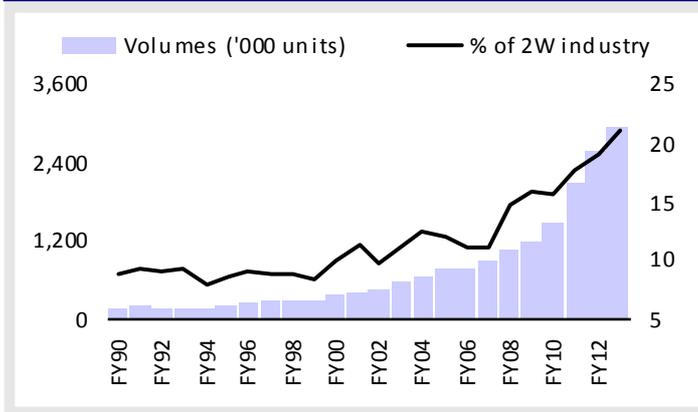
"Scooters find multiple uses in urban households vs. motorcycles, which are more suited for men" stated by Mr Anil Dua, Senior VP (Marketing & Sales) HMCL in an interview with ET, dated Nov. 3, 2013

3. Automatic scooters (Honda Activa, Hero Pleasure, TVS Scooty, etc)

a. Value inflow (Phase-I: mid 2000s onwards): Automatic scooters (*Kinetic DX, Bajaj Sunny*, etc) have been around since the mid-1980s and have grown at ~14% CAGR over FY93-03. However, they gained traction with the launch of *Honda Activa*, the first 4S automatic scooter, in 2001. Customer acceptance of automatic scooters has been increasing, especially in urban markets, driven by narrowing fuel efficiency gap vis-à-vis motorcycles, improvement in urban roads and unisex appeal. Automatic scooter volumes grew at ~22% CAGR over FY08-13.

Automatic scooters are driving the resurgence of scooters

Domestic two-wheeler market share trend (%)

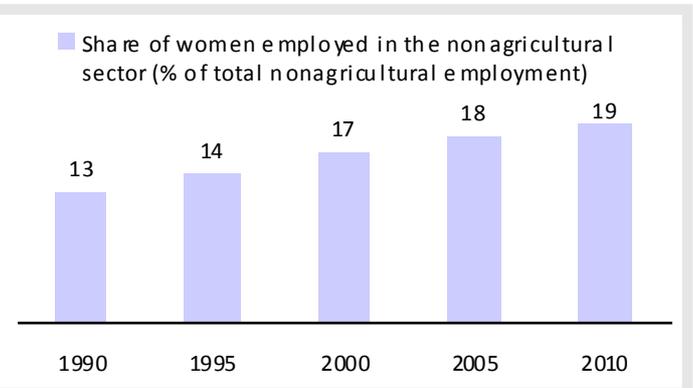
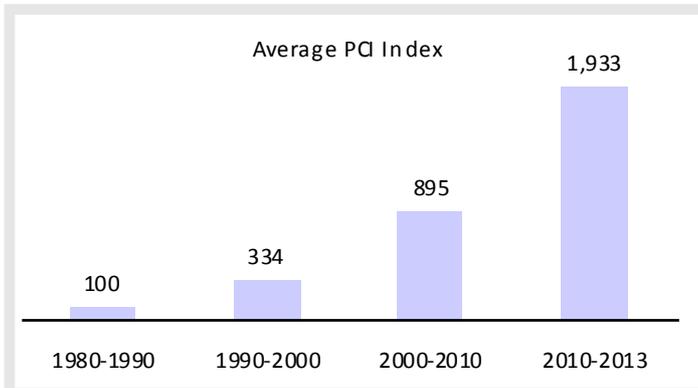


Source: SIAM, MOSL

Catalysts for changing customer priorities, leading to value migration to scooters

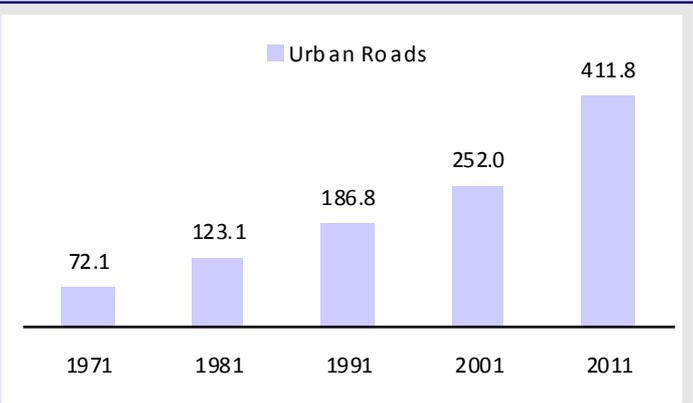
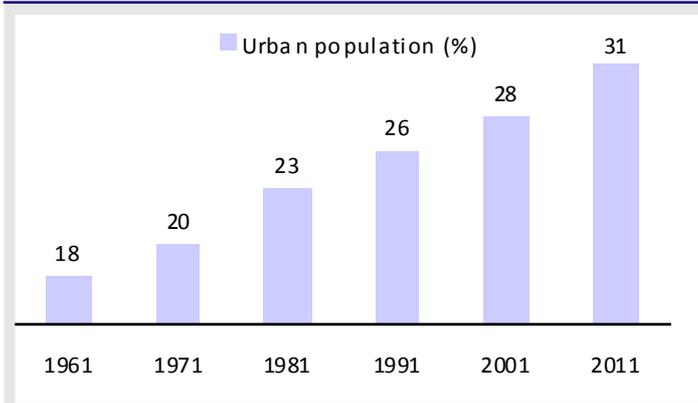
Rising per capita income

Increasing female worker participation in non-agri sectors



Growing urbanization

Increasing road infrastructure in urban areas ('000 km)



Source: World Bank, MORTH, Industry, MOSL

Value migration poses threat, but also opens up opportunities

- Value migration is relocation of underlying value, rather than disappearing of value, to products/business designs that aptly address changed priorities.
- The changing dynamics pose challenges for incumbents, but also open up large opportunities. Though changing customer priorities undermine the incumbents' position of strength, they do not have to necessarily lose out. By having a responsive business design, they can sustain their position and create a new value proposition that addresses new priorities.
- In context of the Indian two-wheeler industry, we have already witnessed value migration from geared scooters to motorcycles. Lack of proactive business design from BJAUT (incumbent leader in geared scooters) allowed HMCL to capture a large part of the value migration to motorcycles.
- However, the fact that BJAUT recovered part of the lost ground by reacting to the changed world indicates that the incumbent can retain value by having a proactive business design.
- In the current context, we are witnessing early signs of value outflow from motorcycles to automatic scooters in the urban markets, driven by higher convenience and unisex design.
- While HMSI has so far captured a large part of this value migration by being the driver of this change, HMCL and TVSL are also well positioned. For now, BJAUT would lose out due to this migration, as it taken has taken the strategic position of being 'a global motorcycle specialist'.

Japanese players had triggered shift towards motorcycles

Fuel efficiency, reliability and suitability for poor roads were key drivers

- Traditional geared scooters dominated till the mid-1990s due to their lower cost, higher mileage, and lower maintenance compared to the then locally available motorcycles.
- The entry of Japanese players brought reliability, durability and fuel efficiency to motorcycles.
- The shift from traditional geared scooters gathered pace in the 1990s, as higher income levels and economic development led to increase in demand for better two-wheelers.
- Sharp rise in fuel prices (in the late 1990s) led to a sudden and sharp rise in the share of motorcycles due to their better mileage (scooter sales declined by 30-40% annually in the late 1990s v/s annual decline of 10-15% earlier). By mid-2000s, geared scooters were extinct.

Why scooters had dominated pre-1990s

➤ Lack of reliable and fuel efficient motorcycle

Motorcycles, by nature of their design, are generally more rugged and sturdy than scooters. They have better ground clearance, strong suspensions and larger wheelbases.

However, pre-1980s, available motorcycle brands lacked reliability and fuel efficiency. There were only three serious players in the Indian motorcycle market - *Bullet*, *Rajdoot* and *Ideal Jawa (Yezdi)*. *Rajdoot* was popular in rural areas because of its sturdy suspension, while *Bullet* and *Jawa* were popular in the urban markets for their strong performance.

While the products were popular, due to issues with respect to mechanical reliability and fuel efficiency, majority of the customers preferred the then available traditional geared scooters.

➤ Reliability and low cost helped scooters, especially Bajaj Chetak

Though scooters were an imperfect solution, they offered better functionality than motorcycles. They were preferred for their functionality of motorized mobility, affordable pricing, reliability and higher mileage. *Bajaj Chetak* had captured a major market share and became a must have for every middle-class Indian. *Bajaj Chetak* was synonymous with scooters and demand was so strong that it had a waiting period of up to 10 years.

"Yezdi had serious mechanical issues, especially starting trouble. One had to pump about 20 times to get that machine started. It stood no chance against the peppy, new generation Japanese bikes." - West-based HMCL dealer

BJAUT's iconic 'Hamara Bajaj' advertisement ([click here for video](#)) captures the joy ride of a quintessential Indian middle class family to its finest details, immediately connecting with the consumers

Bajaj Auto advertisement highlighting sturdiness and reliability of its scooter

You just can't beat a BAJAJ

The scooter that's travelled more than 200 times the distance to the sun

It's a long, long way to the sun — 150 million kilometres to be precise! But then again, Bajaj has nearly 2 million scooters on the road today. So even a grossly underestimated 15,000 kms per scooter gives an awesome total of 30,000 million kilometres. Just think of that!

You'll see that Bajaj has come an incredibly long way. Millions and millions of kilometres over every kind of road, through the toughest conceivable conditions. Ask any of those 2 million Bajaj owners and they'll tell you: You just can't beat a Bajaj!

bajaj auto
AUTO. Pure 411 035
Value for money, for years

Source: Company, MOSL

Lamby 150 advertisement, positioning it as an ideal family vehicle

LML Vespa advertisement, highlighting its mileage

Smile the miles away on the comfortable Lamby.
lamby-150
The ideal family scooter.

Only the Vespa XE gives you 55 kms. to a litre, and so much more besides.

7 ways to greater economy.

- 1 The 100 cc carburettor provides the ideal air fuel mixture to give the best combustion, saving fuel.
- 2 The electronic ignition gives instant starting. The auto fuel shut-off prevents stalling.
- 3 Three fuel jets give precise economy, efficiency and mix the engine mixture more evenly with the fuel.
- 4 Downshifting is easily automated. A kick in neutral for the downshift gives the ease of changing to the next gear.
- 5 Fully increased spark plug life, because constant electronic ignition keeps voltage far below that in a manual.
- 6 The magneto is fixed with five ceramic coated permanent magnets which, unlike the ordinary ones, do not lose their magnetism.
- 7 The electronic speedometer is direct read, eliminating the confusion and hazard of indirect read, and thus any recurring expenditure on maintenance and adjustments.

Now, everything you wanted in a scooter is yours for the asking. Vespa XE, introduces major technical breakthroughs — thoughts to give you a drive like never before. With greater power, greater economy, greater safety and comfort. Altogether, a performance that's engineered to last a lifetime.

Take off from 30 to 75 km.p.h. in a matter of just 14.5 seconds. A brilliant new engine with a 100 cc displacement puts HP 6.5 CV of raw, surging power at your fingertips. That's power, along with economy — approximately 55 kilometres to one litre. A sturdier, more scientifically designed suspension for added riding comfort. Risk free, instant braking at even high speeds. A body that's perfectly balanced for a safer ride.

Get on to the latest in scooter technology. Like they're doing all over the world... get on to the Vespa XE, for a truly exhilarating ride.

vespa XE
from **LOHNA MACHINES LTD.**
C-1, Park House, Connaught Place, New Delhi-110022
in technical collaboration with **PIAGGIO**
the world's largest selling scooter.

Bookings to open soon.

Source: Company, MOSL

"Japanese motorcycles with better ground clearance, stronger suspension and larger wheelbase, performed well on village roads. They were more fuel efficient than traditional geared scooters due to their four-stroke technology. The good looks and aesthetics were an added bonus." - North-based HMCL dealer

➤ Entry of Japanese brought much-needed reliability and fuel efficiency

The 1980's saw a sea change in the Indian two-wheeler market, with the entry of several Japanese players through joint ventures with Indian partners. They introduced several 100cc motorcycles with state-of-the-art technology; these were far more fuel efficient, reliable and easy to ride.

Moreover, Hero Honda (now Hero MotoCorp; HMCL) introduced four-stroke technology, which is superior to the two-stroke technology that Yamaha, Suzuki and Kawasaki (through Bajaj) had introduced, in terms of fuel efficiency and reliability.

Shift from geared scooters to motorcycles started in 1990s

Factors that drove the shift:

- **Motorcycles generally more suitable for bad roads:** Motorcycles performed well on the relatively poor village roads, with their higher ground clearance, stronger suspension and larger wheelbase.
- **Better technology with more reliable and fuel efficient engines:** Post the entry of Japanese players and introduction of four-stroke technology by Hero Honda, motorcycles became more fuel efficient and reliable.
- **Goods looks and aesthetics** were a bonus.

Hero Honda advertisements in the 90s, highlighting fuel efficiency, style and power



Source: Company, MOSL

Sharp increase in fuel prices accelerated shift in late 1990s

Apart from motorcycles being better in terms of looks, performance, reliability and fuel efficiency, the following factors accelerated the shift away from traditional geared scooters:

- Oil crisis in the late 1990s led to a sharp increase in fuel prices. Motorcycles being more fuel efficient than traditional geared scooters, their sales increased sharply.
- With multiple motorcycle launches, the price difference between motorcycles and geared scooters narrowed. This encouraged motorcycle purchases.
- Sharp growth in the population of young (18-25 years old) consumers coupled with significant growth in disposable incomes led to a quantum jump in the demand for better two-wheelers - vehicles with good looks, greater power and higher quality, but with fuel economy as well.

Hero Honda advertisement, highlighting running expenses at 10 paise/km due to four-stroke technology from world leader, Honda

Yamaha RX100 (two-stroke) advertisement, highlighting better power, faster pick-up and speed as the key features

FILL IT. SHUT IT. FORGET IT.

The Hero Honda CD 100 gives a fantastic 80 km./litre.*

Just think, in terms of cost, a mileage of 80 km./litre* works out to under 10 paise a kilometre.

Or in terms of distance—a full 700 kilometres* on a tank full of fuel.

The phenomenal economy is due to the latest advanced engine from Honda—the world leader in motorcycle technology.

And apart from being the most fuel efficient motorcycle in the country, Hero Honda CD 100 offers you much more—total comfort, total power and total reliability in short—a total performance motorcycle.

Also, there is a nationwide network of 150 dealers and service points, for prompt, efficient service.

So fill it, shut it, forget it—for the next 700 km*.

*At 40 kmph with a load of 150kg.

HERO HONDA
Committed to total customer satisfaction.

AHEAD OF THE 100'S

Highest Power : 11 BHP
At 7,500 rpm to keep you ahead of the 100's.

Fastest Pick-up : 0-60 Km/h in 7.5 Secs.
Puts you up front.

Speediest : 100 Km/h top speed
Means extra power when you need it.

Best Looking in its Category
Acrylic paint on metal □ Poly-urethane paint on plastic □ Thermo acrylic coating on aluminum □ The first tri-nickel chrome plating process in India

Most Durable
Unique double cradle frame to outlast the others. Low maintenance, for long-term economy.

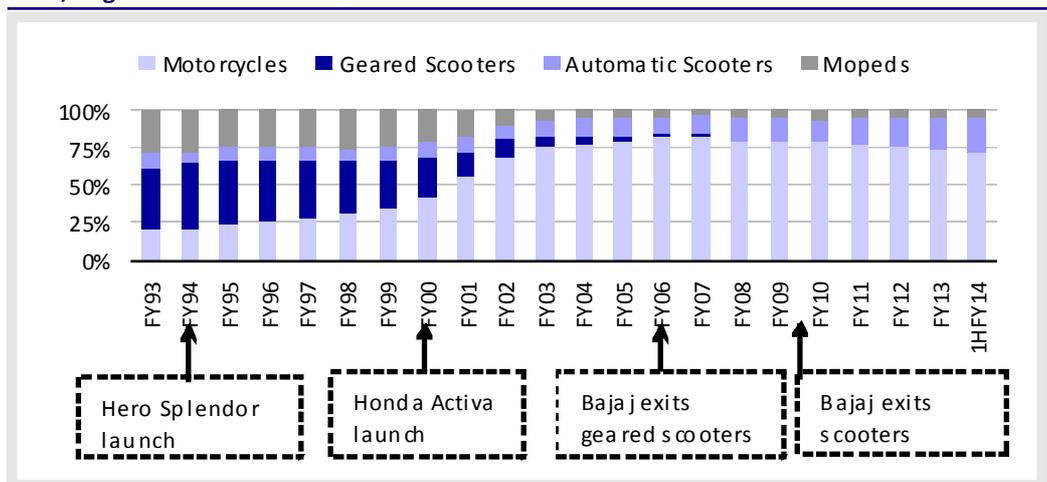
GO FIRST CLASS

HERO HONDA SOUTH 405

Source: Company, MOSL

Trend favoring motorcycles strengthened in early 2000s; Bajaj Auto exited geared scooters in FY06, ungeared scooters in FY11

"Traditional scooters stood for old family values and the 'we' factor - remember the Humara Bajaj campaign? Motorcycles are far more individualistic and are an image product." - South-based HMCL dealer



Source: SIAM, MOSL

"Depending upon models and their characteristics, motorcycles have swept rural, semi-urban and urban India in a way that would have been inconceivable even a few years ago." - BJAUT Annual Report, 1999-2000

Share of scooters recovering post FY07



Source: SIAM, Company, MOSL

Excerpts from dealer interaction



Mr Ajay Kumar Patni,
Owner of Arun Automobiles,
BJAUT dealer since 1964

What were the key reasons for the shift from scooters to motorcycles in the 1990s?

The biggest factor for the shift was higher mileage associated with four-stroke motorcycles. In those days, scooters used two-stroke technology. They delivered 35-40kmpl, while Hero Honda's four-stroke 100cc motorcycles delivered 60kmpl. In the late 90s, fuel prices rose sharply. With 60kmpl fuel efficiency, motorcycles became very popular and the share of four-stroke motorcycles increased tremendously over 1997-2001.

Motorcycles were also more comfortable due to their larger wheels and longer wheelbase. With the economy opening up in the early 90s, there was an increase in economic activity, and consequently, traveling needs. Motorcycles offered better mileage and convenience than scooters.

Though motorcycles were more expensive (INR30k v/s INR20k for scooters), consumer financing was catching up rapidly. Citibank was very aggressive in two-wheeler financing then. This coupled with general increase in income levels supported motorcycle demand.

Resurgence of scooters led by automatic segment

Convenience, universal appeal coupled with economic development driving demand

Increasing focus on automatic scooters

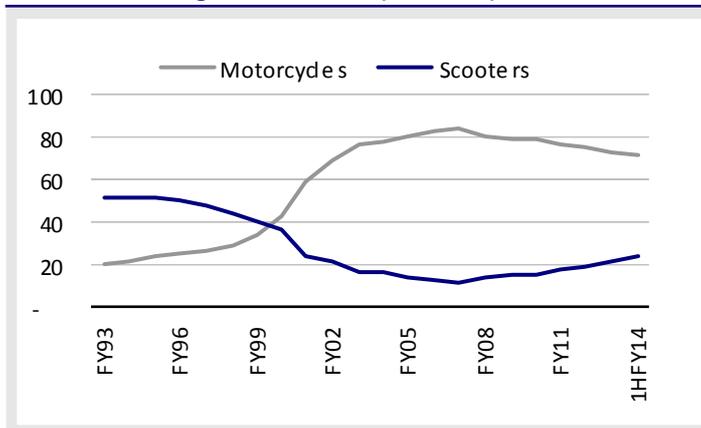
Company	Brand	Year
TVS	Scooty	1994
Honda	Activa	2000
Hero	Pleasure	2005
Suzuki	Access	2007
Honda	Aviator	2009
Mahindra	Rodeo	2009
Mahindra	Flyte	2009
TVS	Wego	2010
Mahindra	Kine	2010
Yamaha	Ray	2012
Suzuki	Swish	2012
Hero	Maestro	2012
Honda	Dio	2012
Piaggio	Vespa	2012
Mahindra	Duro	2012
TVS	Jupiter	2013

- While the sale of traditional geared scooters declined, the share of automatic scooters continued to increase, driven largely by higher demand from working women, college students (female) and senior citizens.
- With the launch of Honda Activa in the 2000s, automatic scooters started gaining acceptance amongst men as well, due to attributes such as comfort, convenience and universal usage.
- Automatic scooters (particularly those launched by Honda) were far ahead of traditional geared scooters in terms of their performance, reliability and fuel efficiency.
- Urban markets could see further increase in the share of scooters, driven by (a) new demand from a wider target audience, and (b) replacement demand from motorcycle users.

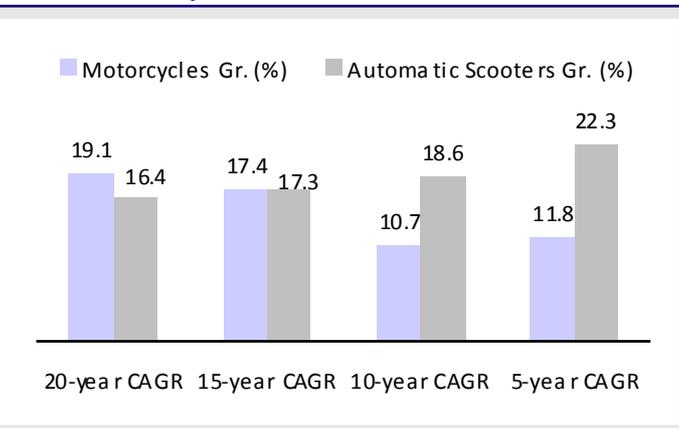
Automatic scooters address shortcomings of geared scooters

While traditional geared scooters died down, the growth momentum in ungeared (automatic transmission) scooters continued. Over the last two decades, automatic scooters have grown at 16% CAGR against ~7% CAGR for the overall scooter segment. Automatic scooters offer several advantages over traditional scooters. Attributes such as convenience (self-start, no need to change gears), contemporary looks, and powerful engines are making them popular amongst customers across age categories and gender.

Share of scooters has declined over the last two decades due to decline in geared scooters (% of 2Ws)...

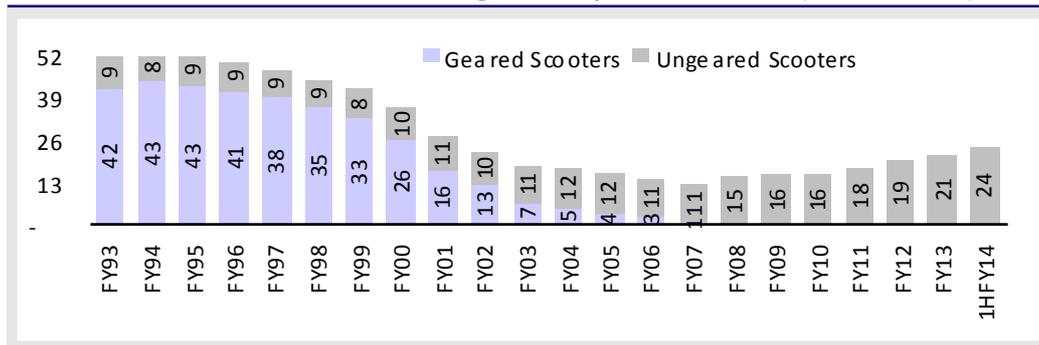


...but automatic scooters have been driving resurgence over the last 10 years



Source: SIAM, MOSL

Share of automatic scooters has been rising, driven by several launches (% of total 2Ws)



Source: SIAM, Industry, MOSL

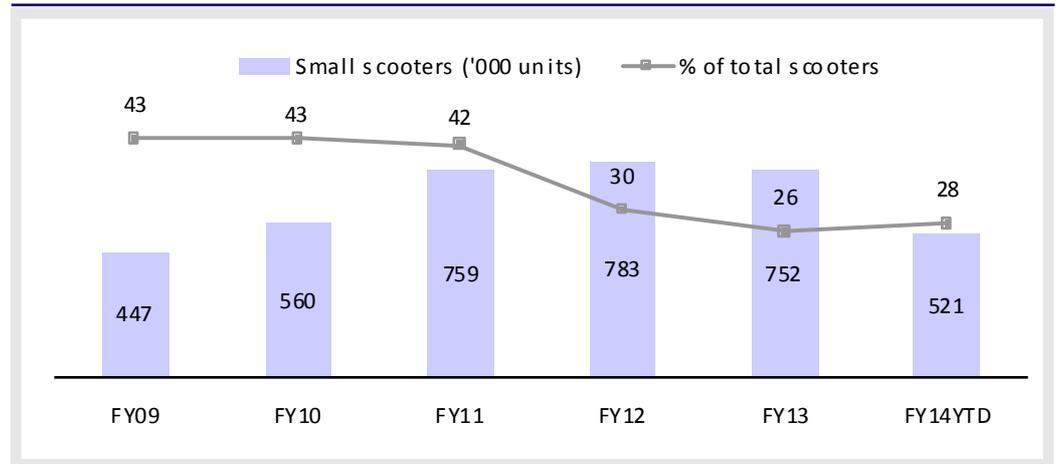
"Ungeared scooters were initially used by urban women and college students, who prefer automatic transmission, self-start, light weight and easy maneuverability." - South-based TVSL dealer

Initially, urban women and students drove demand for automatic scooters

- Ungeared scooters, which were predominantly plastic bodied (lighter weight and smaller size), with lower capacity engines (largely sub-100cc), were popular among females. Usage by males was limited, considering the tiny/feminine looks of the plastic bodied scooters.
- Companies promoted automatic scooters through high decibel celebrity endorsements, focusing on women empowerment.
- With greater economic development, increasing women participation in the workforce, demand from female customers increased at a healthy rate till FY12. However, post FY12, there is a distinct trend towards large/unisex scooters.

"Scooters are perceived to be safer than motorcycles. Hence, parents generally buy scooters for their school/college going children in the age bracket of 18-22 years." - South-based HMSI dealer

Small scooters were popular among females



Source: Industry, MOSL

Hero Pleasure advertising campaign focusing on women empowerment

Hero Pleasure advertisement, 'Why should boys have all the fun?', featuring Bollywood actress Priyanka Chopra ([Click here to see video](#))



Source: Company, MOSL

"The scooter is turning out to be the perfect 'second car' in the family. High fuel prices and traffic congestion make scooters a convenient mode of transport for daily commutes, while cars are more suitable for occasional weekend drives." - Noida-based HMSI dealer

Bollywood actress Anushka Sharma in TVS Scooty ad focusing on women empowerment



[\(click here to see video\)](#)

Acceptance amongst men has also increased

Growth for automatic scooters has accelerated over the last four years, with 26% volume CAGR. Large scooters (>100cc) have been growing faster at ~31% CAGR. This is largely driven by increasing acceptance of automatic scooters among men. Among the reasons for the growing popularity of automatic scooters are:

- **Significant reduction in performance and fuel efficiency gap with motorcycles:** With advancement in technology, the performance of current generation scooters has improved significantly and is near motorcycle levels. The fuel efficiency gap v/s motorcycles has reduced - 40-45kmpl v/s 60-65kmpl for motorcycles (35-40kmpl for geared scooters).
- **Universal appeal:** Being automatic transmission vehicles with self-start option and consequent ease in driving, scooters can be used by both males and females, young and old.
- **Convenience and comfort:** Automatic transmission scooters offer a lot of comfort and convenience, particularly in urban traffic conditions.
- **Perfect primary family vehicle:** High fuel prices and traffic congestion make scooters a convenient mode of transport for daily commutes, while cars are used for occasional drives.

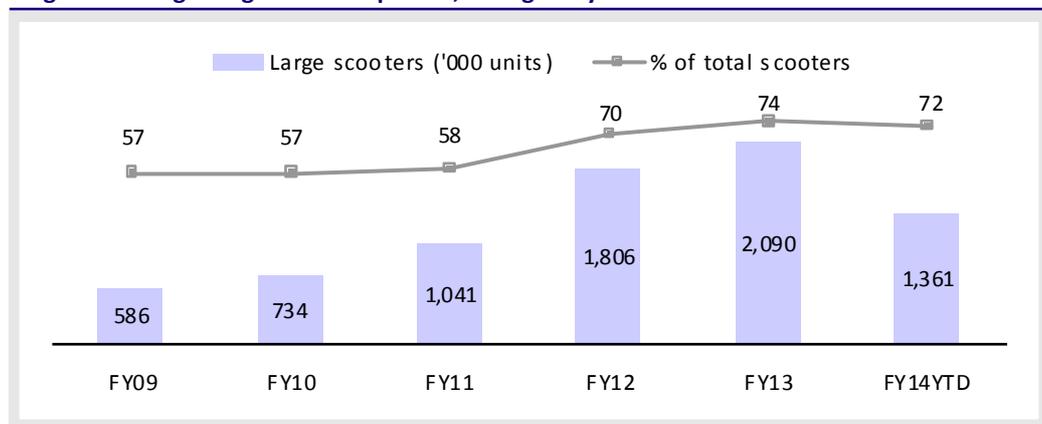
Comparison of competing two-wheelers

Parameters	Honda Activa	Hero Splendor Pro	Hero Passion Pro	Bajaj Chetak 2S
Price (INR '000) ^	51.25	48.74	50	NA
Engine (cc)	109	97	97	145
Power (bhp)	8.00	7.80	7.80	6.25
Weight (Kgs)	111	109	116	103
Mileage (Kms/Ltr) *	60	90	84	
Mileage on-road (Kms/Ltr)	40-45	60-65	60-65	35-40
Wheelbase (mm)	1,238	1,230	1,235	1,230
Seat height (mm)	765	785	795	840
Ground clearance (mm)	153	159	165	145

^ Ex-showroom Mumbai, * Manufacturer's claim

Source: Company, MOSL

Large scooters gaining wider acceptance, taking away share from small scooters



Source: SIAM, Industry, MOSL

Mr Anil Dua, Senior VP, Marketing & Sales, HMCL indicated that with *Maestro* scooters, which are targeted towards the youth, urban consumers are now more comfortable with scooters. Earlier, while the women customers were largely from cities, male customers were largely from smaller towns.

Scooters becoming popular amongst youth as well

- Our channel interactions indicate that scooters are gaining acceptance amongst the youth. Brands such as *Honda Dio* and *Yamaha Ray-Z* are being bought by young/college going boys.
- However, they are not yet attractive relative to motorcycles, which still constitute a big chunk of the market.
- Attractiveness amongst youth would be the key inflection point.
- Sensing this, two-wheeler players have launched several male-specific products - *Hero Maestro*, *Honda Aviator*, *Yamaha Ray-Z*, *TVS Jupiter*.

With several recent launches targeting the youth (young boys in the 18-25 years bracket), acceptance amongst youth is also increasing at a rapid pace, especially as the 'network' effect sets in. HMCL is focusing on positioning its *Maestro* scooters as a 'cool' product for young men. The product is endorsed by Bollywood star and youth icon, Ranbir Kapoor.

Hero Maestro online advertisement focused on young men



TVS Jupiter advertisement positioning it as 'for men'



Source: Company, MOSL

Hero Maestro advertisement featuring bollywood star Ranbir Kapoor

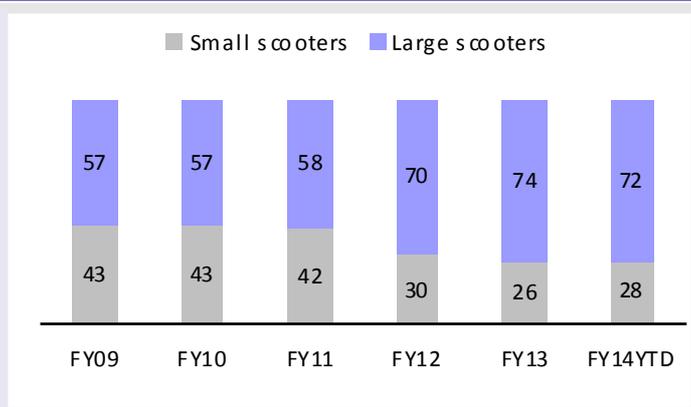
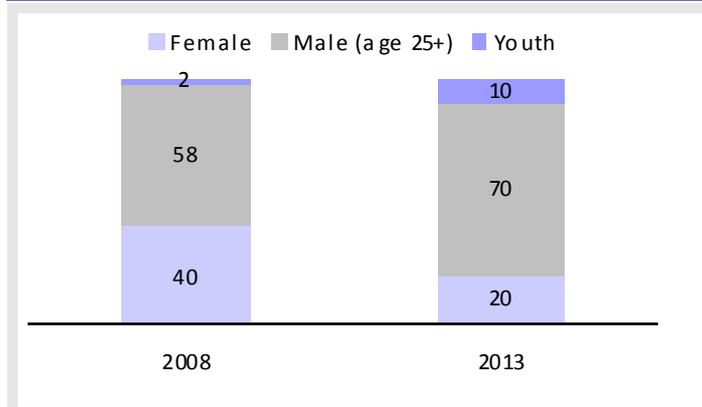
HMCL is focusing on positioning its *Maestro* scooters as a 'cool' product for young men. The product is endorsed by Bollywood star and youth icon, Ranbir Kapoor ([click here to see the video](#))



Source: Company, MOSL

Share of men and young boys rising over the last five years...

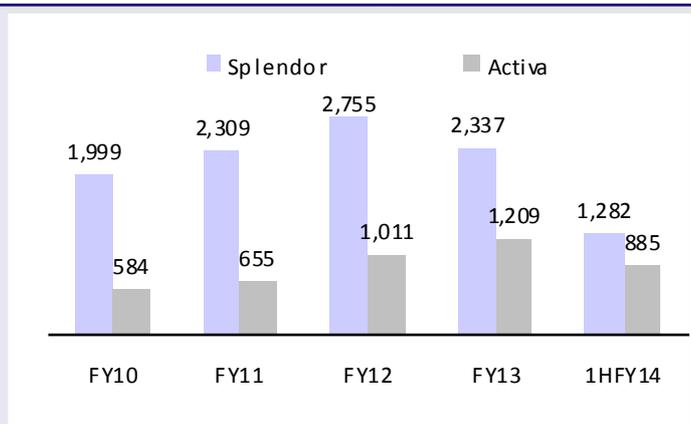
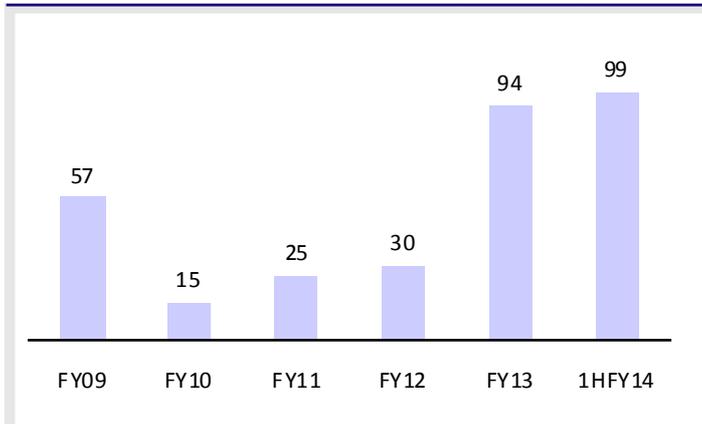
...reflected in rising share of bigger scooters



Source: Industry, MOSL

Scooter share of incremental 2W industry volumes (%)

Trend in volumes in best motorcycle and scooter brand ('000)



Source: Industry, MOSL



Mr Jayant Shah,
Owner of Kumar Motors,
HMCL dealer since inception
(1984)

Excerpts from dealer interaction

How has been the trend in scooter sales in the Baroda market over the last five years?

More and more customers are preferring scooters. In Baroda, the share of scooters in total two-wheeler sales has increased from 15% to 30% over the last five years.

Why are scooters increasingly becoming the preferred choice for personal transportation?

Scooters are a convenient mode of transport for city driving due to automatic transmission, self-start and light weight (easy maneuverability). With advancement in technology, the mileage gap between scooters and motorcycles has also reduced significantly.

What is the typical customer profile for scooters?

Students in the age bracket of 18-22 years, working women, housewives, small traders and business men, aged people (over 40 years) are the key customer categories for scooters.

Scooters are no longer only a female targeted product. Earlier products were largely plastic bodied and small, and hence, perceived as female only products. Today, there are a lot of options available in the scooter segment, with high power, larger size and good looks - *Activa, Maestro*, etc.

In fact, now the share of male customers (self-employed, small traders, service category) is much higher than female customers, though overall number of female customers has also increased over the years.

Will scooters overtake motorcycles over the next 5-7 years?

Scooters will continue to grow ahead of motorcycles. However, motorcycles will remain popular up-country and for longer distance travel (until infrastructure improves significantly). Motorcycles have their own advantages in rural areas in terms of being more comfortable on relatively poor quality roads and for long distance travel (larger wheelbase, higher ground clearance, better shock absorbers) and higher mileage (for cost conscious rural customers).

Can share of scooters revert to historical level of ~45%?

Global (and select local) experience suggests acceleration in scooter share

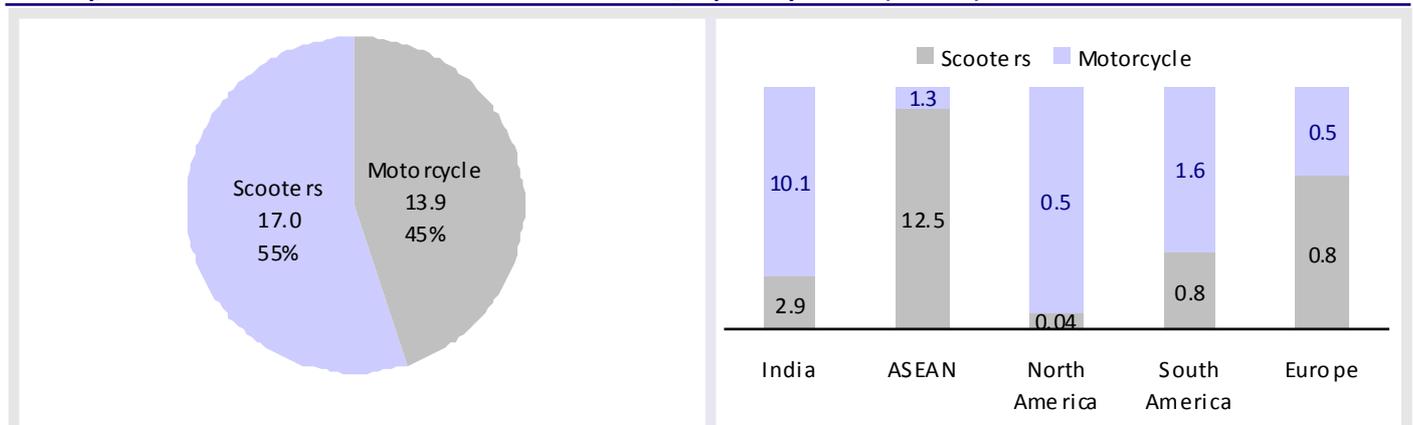
- Globally, scooters constitute ~55% of the two-wheeler market (ex China and Africa). Excluding India, the share of scooters is at ~79% (including geared step-throughs).
- In India, scooter penetration in economically developed states has been higher. Six states contribute ~60% of scooter volumes. Penetration of scooters is increasing in urban centres, while smaller towns are seeing increased acceptance.
- ~51% of the dealers we surveyed expect the share of scooters to be over 40% by 2020.
- Historically, the share of scooters in India was ~45% for over 30 years till 2000. The experience of global peers and select developed states, and dealer feedback suggests that the share of scooters might once again increase to 40-45%.

Large global markets skewed towards scooters

"The latent demand for scooter was always there because of its utility value; it was a question of bringing the right product." HMSI Ex-Operating Head (Sales and Marketing) NK Rattan said in an interview with Economic Times dated November 21, 2010.

- Scooters constitute ~55% of the global two-wheeler market (ex China and Africa). Excluding India, the share of scooters is ~79%.
- Globally, large evolved two-wheeler markets are largely scooter/step-through markets, with share as high as 100%.
- Asia is the largest two-wheeler market, accounting for over 85% of the global two-wheeler market (ex China and Africa). Market dynamics in India are similar to other Asian countries, though India is behind its Asian peers in terms of economic evolution. The evolution of the two-wheeler market in India is likely to be on similar lines as in other Asian countries.
- Indonesia, the third-largest two-wheeler market in the world after China and India, with annual sales of 7m units, is primarily a scooter/step-through market.
- A similar shift is likely in India, but not as fast and steep, considering the difference in fuel efficiency, aesthetics and road infrastructure (especially in rural areas).

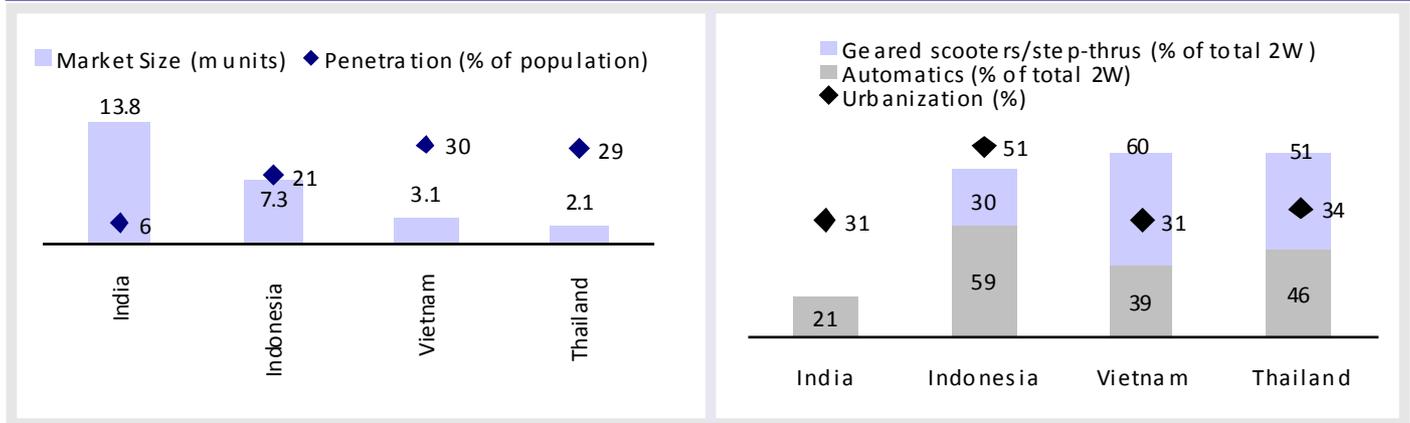
Globally, two-wheeler markets are skewed towards scooters, especially in Asia (m units) *



* Excluding China and Africa

Source: Piaggio, MOSL

Two-wheeler penetration high in ASEAN region, especially scooter penetration, due to higher development and urbanization

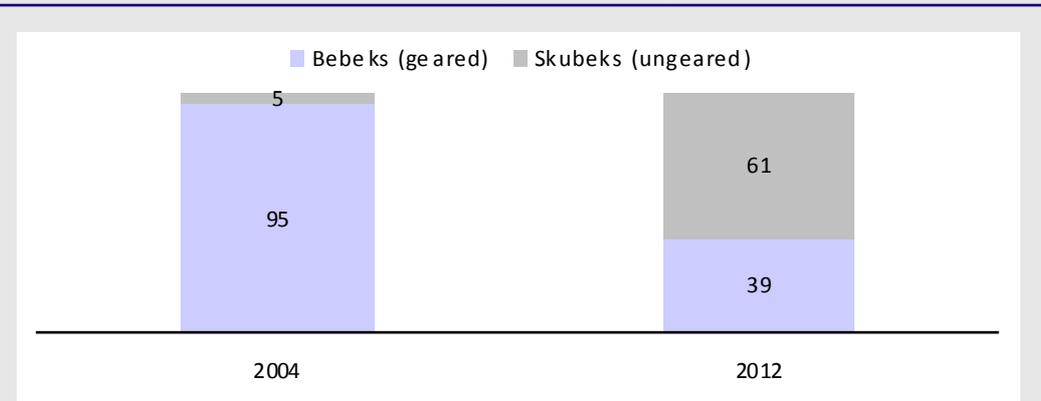


Source: Industry, MOSL

Scooters dominate in Indonesia; will India follow?

- **Market skewed towards step-throughs:** Just as 100cc motorcycles dominate the Indian two-wheeler market, step-throughs dominate the Indonesian market. Step-throughs account for ~86% of the two-wheelers sold in Indonesia, the rest being motorcycles.
- **Practicality, universal appeal of step-throughs make them popular:** Step-throughs are popular due to their practicality (in crowded Indonesian streets), higher mileage (than motorcycles available in Indonesia) and universal appeal (female labor force participation high at 50% v/s 29% in India).
- **Step-through market shifted towards automatic transmission due to convenience:** Since 2004, with the launch of automatic transmission step-throughs (locally called skubeks), the share of geared step-throughs (locally called bebeks) in overall two-wheeler sales declined significantly in favor of skubeks due to their convenience in the face of traffic congestion, supported by similar pricing, looks and fuel efficiency.

Share of automatic transmission step-throughs increased significantly over 7-8 years



Source: Industry, MOSL

Honda Blade (geared step-through; bebek)



Honda Vario (automatic transmission; skubek)



Source: Company, MOSL

Local experience of select developed states indicates higher share of scooters

- The share of automatic scooters has been rising in the overall two-wheeler industry across states over the last few years.
- Anecdotal evidence suggests that states with higher economic development and open culture have higher scooter sales penetration.
- Our analysis of last few years' town-wise two-wheeler sales in Gujarat, Madhya Pradesh, Maharashtra and Chattisgarh (four states contributing 27% of pan-India market) indicates that scooter penetration is increasing even in smaller towns.
- Top-6 states (four in the South and two in the West) contribute over 60% of scooter demand. All these states are relatively more developed; hence, the higher scooter penetration.

Share of ungeared scooters has increased across markets

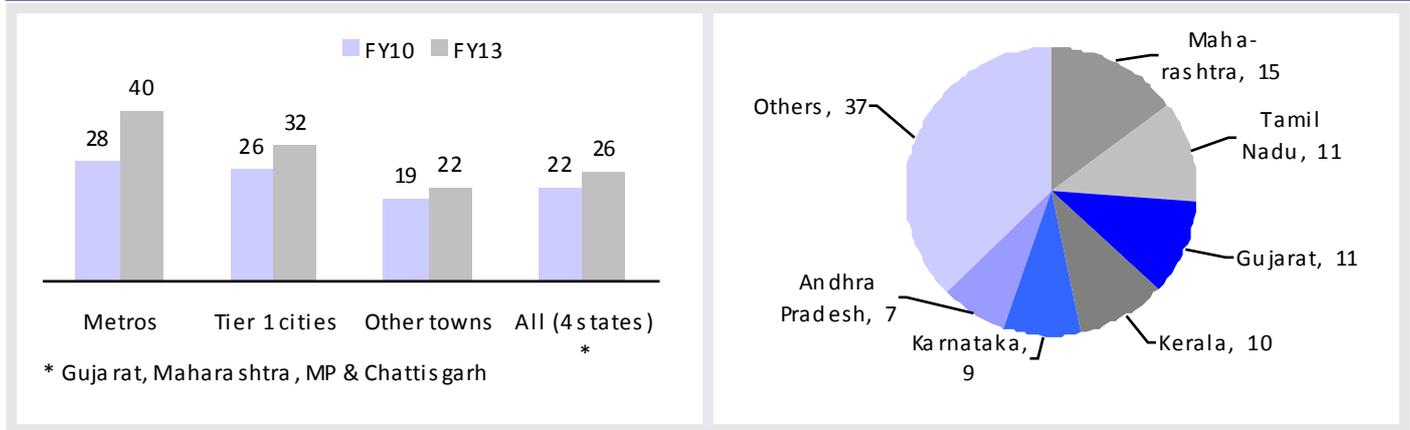
	Scooter share (% of total 2W)			PCI (INR '000)	Urbanization (%)	2W share (%)
	FY11	FY13	1HFY14			
Kerala	29	42	51	84	47.7	4.9
Chandigarh	18	22	48	135	97.3	0.6
Delhi	19	30	35	176	97.5	2.2
Gujarat	26	31	33	83	42.6	7.6
Punjab	22	28	33	78	37.5	3.6
Karnataka	24	28	32	69	38.6	6.5
Maharashtra	24	28	31	92	45.2	11.4
TN	17	21	25	84	48.5	11.4
India Average	17	21	23	69	31.0	100.0
Haryana	15	19	22	109	24.3	3.0
AP	15	19	20	72	33.5	8.2
Chattisgarh	17	17	18	47	23.2	2.3
Orissa	16	18	18	46	16.7	2.6
WB	9	13	14	56	31.9	3.9
MP	14	14	14	35	27.6	5.6
Rajasthan	13	12	13	47	24.9	6.5
UP	9	10	11	29	22.3	10.7

Source: SIAM, MOSPI, RBI, Industry

In 1HFY14, scooter sales in Kerala and Chandigarh were similar to motorcycle sales

Scooter sales contribution rising even in smaller towns (%)

FY13: State-wise scooter sales contribution (%)

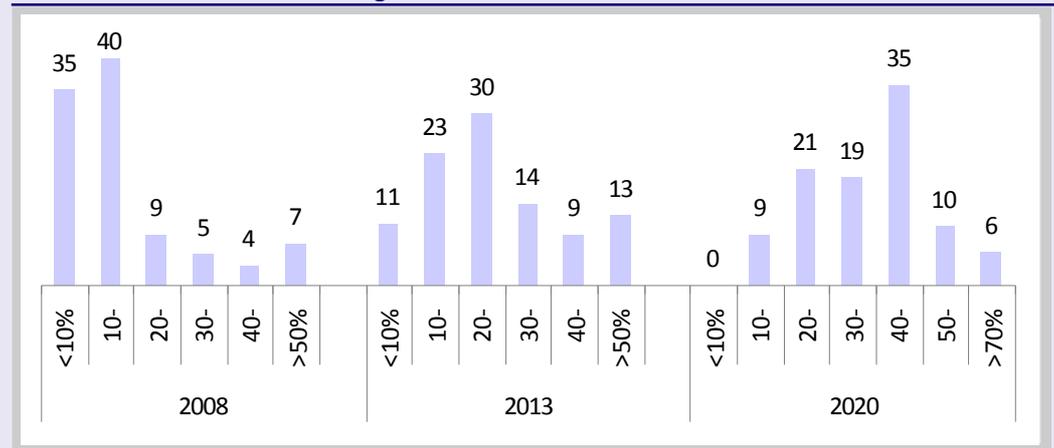


Source: Industry, MOSL

Takeaways from dealer survey

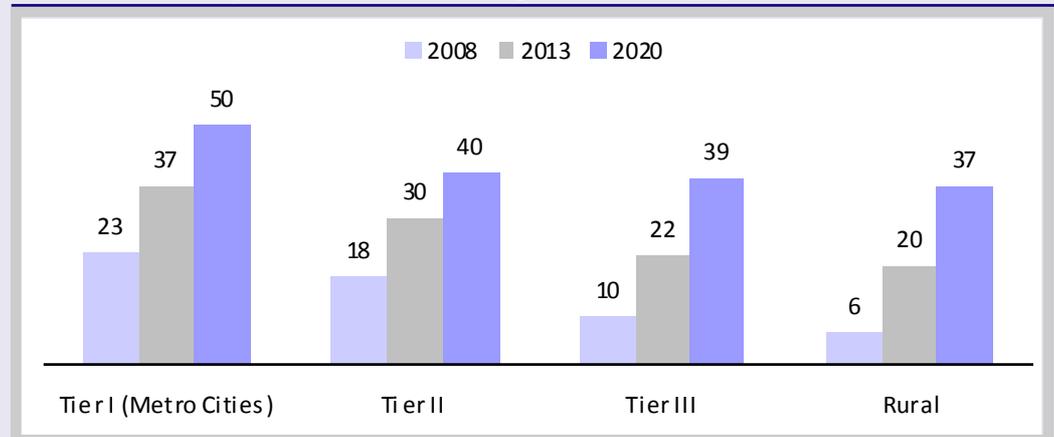
Over 50% of dealers expect the share of scooters to increase to over 40% by 2020 - increasing trend seen across OEs and markets

What proportion of the total two-wheeler industry sales in your respective market comes/ would come from the scooter segment?



Source: MOSL

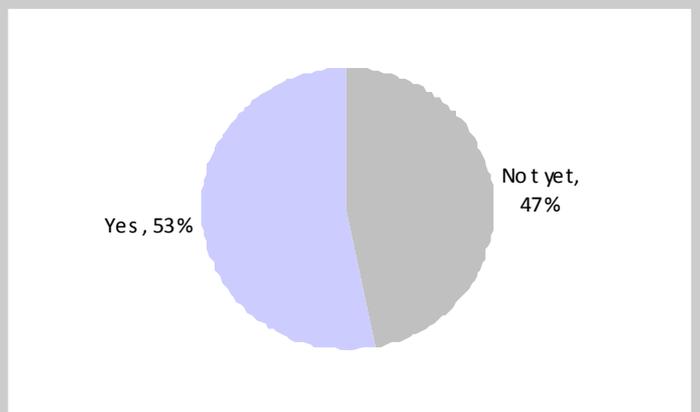
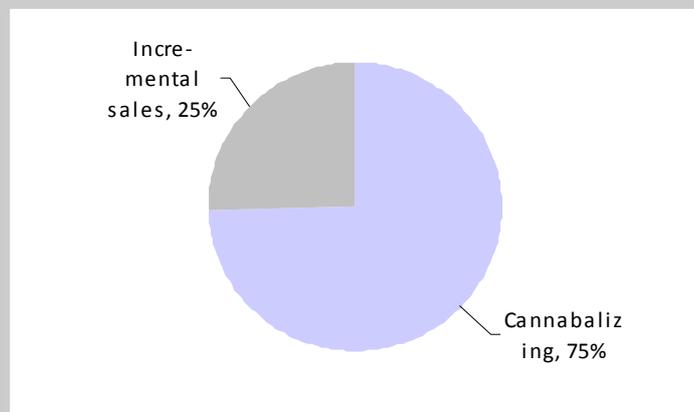
Share of scooters expected to rise across categories of towns (%)



Source: MOSL

Within male customers, do you believe that scooters are cannibalizing motorcycle sales?

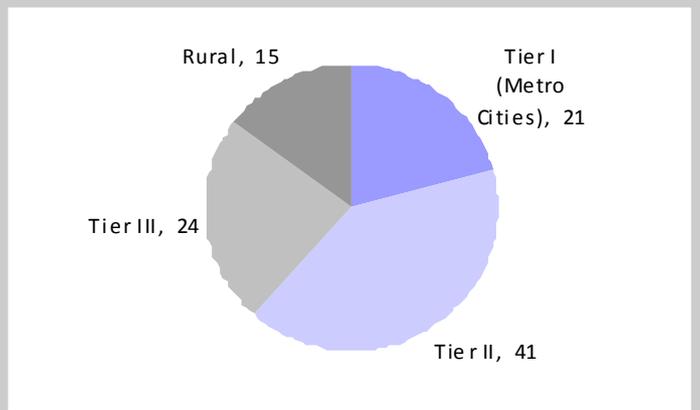
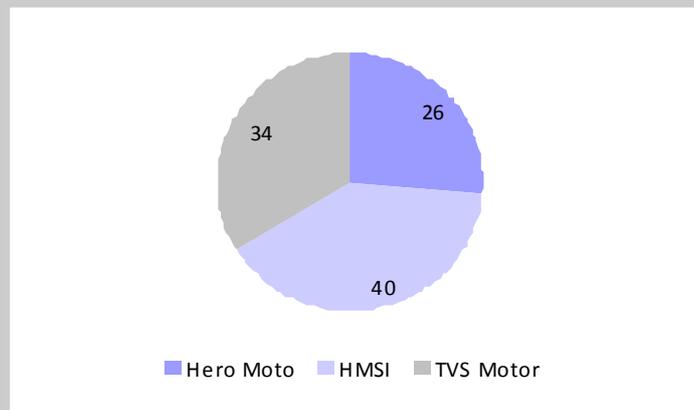
Are young boys (age 18-22 years) also getting attracted and buying scooters largely for their own usage?



Source: MOSL

OEM-wise dealer participant share (%)

Market classification of participant dealers (%)



Source: MOSL

Estimate share of scooters at 37% by 2020

However, dominance of motorcycles to continue

- Based on our multi-model analysis, we expect scooter industry volumes to grow at ~20% CAGR over FY14-20, twice the growth rate for motorcycles. Overall two-wheeler industry volumes are likely to grow at 12% CAGR during this period.
- The share of scooters would increase to 37% by 2020, with annual sales of 10.7m units (equal to the current market size of the domestic motorcycle industry).
- While the share of scooters is likely to increase, we expect the dominance of motorcycles to continue, driven by increasing penetration in rural markets. Motorcycles fare better in rural areas, where road infrastructure is relatively poor, are more suitable for longer distance travel, and offer higher mileage (an important factor for cost conscious customers).

Mr YS Guleria, VP (Marketing & Sales), HMSI indicated that scooter sales are strongly correlated to economic development and education. "First it was Chandigarh - a hub of education in the north. And then in South India, Kerala - India's most literate state - became the first state where scooters outsold bikes. Our data show that Gujarat is now emerging as a major hub where scooters are narrowing the gap with motorcycles pretty fast,".

Estimate share of scooters at 37% by 2020, volume CAGR at ~20%

- Based on our multi-model analysis, we expect scooter industry volumes to grow at ~20% CAGR over FY14-20, twice the growth rate for motorcycles. Overall two-wheeler industry volumes are likely to grow at 12% CAGR during this period.
- The share of scooters would increase to 37% by 2020, with annual sales of 10.7m units (equal to the current market size of the domestic motorcycle industry).
- We discuss the two methodologies used to estimate potential scooter volume growth over the next six years, based on (A) expected penetration in urban and rural markets, and (B) experiential evidence in relatively developed states.

Scooter volumes likely to grow at twice the growth rate for motorcycles

m units	FY14E	FY20E	CAGR (%)
Scooters	3.5	10.7	20.3
% of total	24	37	
Motorcycle	10.4	17.3	8.9
% of total	71	60	
Mopeds	0.7	0.9	5.0
% of total	5	3	
Total Industry	14.6	28.9	12.0

Source: MOSL

(A) Estimating two-wheeler penetration in urban and rural markets, and further estimating replacement and incremental demand for scooters within the urban-rural mix.

Expect scooter share to increase to ~40% by FY20, implying 20% CAGR in scooter volumes

	Urban	Rural	Total	% of total
FY14E	3.3	0.2	3.5	24.1
FY20E	8.7	2.9	11.6	40.0
CAGR	17.5	54.4	22.0	
Key Assumptions for scooters				
Replacement demand (% of replacement demand)	75	25	26	
New demand (% of new demand)	50	15	36	

Source: MOSL

(B) Scooter demand following similar trend on pan-India basis, as currently experienced in relatively developed and urbanized states.

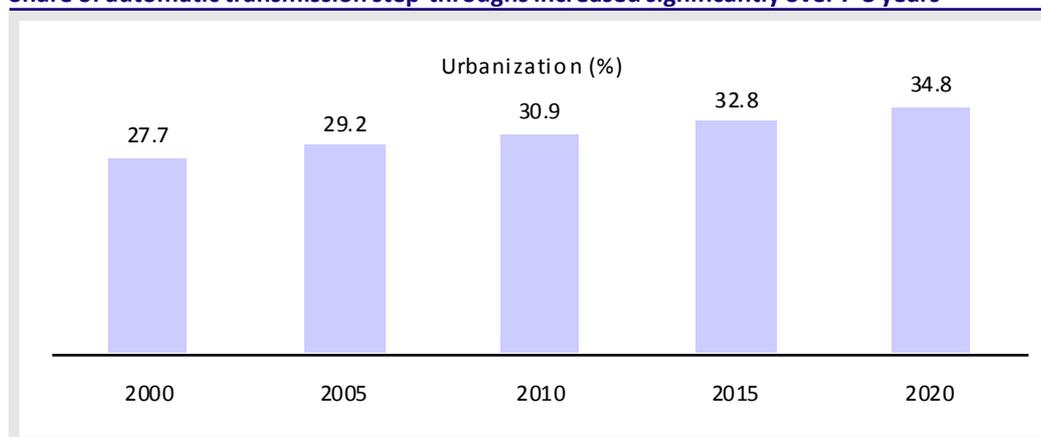
We note that it took just three years for these developed states to improve scooter share from 23% (current pan-India average) to ~34% (estimated pan-India average by 2020)

Scooter share in developed states at ~34%, as against pan-India average of 23.5%

Ratio	FY11	FY13	1HFY14	Urban Popln (%)	Popln (m)
Kerala	29.5	42.2	51.2	47.7	33.4
Gujarat	25.9	30.6	33.3	42.6	60.4
Tamil Nadu	17.1	20.7	24.9	48.5	72.1
Delhi	18.6	29.7	35.3	97.5	16.8
Karnataka	23.8	28.0	31.6	38.6	61.1
Punjab	21.6	28.2	32.7	37.5	27.7
Maharashtra	24.4	27.8	30.6	45.2	112.4
Average of above	23.0	29.6	34.2		
Pan-India	17.4	21.3	23.5	31.2	1,210.2

Source: Industry, MOSL

Share of automatic transmission step-throughs increased significantly over 7-8 years



Source: UN, MOSL

Based on experience of developed states, scooter volumes can grow at ~19% CAGR to ~34% of two-wheeler industry

	2W Demand	Motorcycle	Scooter	% of total
FY14E	14.6	11.1	3.5	24.1
FY20E	28.9	19.0	9.9	34.2
CAGR	12.0	9.4	18.7	

Source: MOSL

Motorcycle volumes to grow at ~9%, driven by rural markets

- While the share of scooters is likely to increase, we expect the dominance of motorcycles to continue, driven by increasing penetration in rural markets.
- In rural markets, motorcycles will continue to be preferred due to their suitability for:
 - higher travelling distances (average of 40-50km/day v/s 10-15km/day in urban markets)
 - relatively poor road infrastructure
 - largely male user category (relatively less open culture)
 - relatively cost conscious customers (motorcycles deliver higher weight-to-fuel efficiency and maintenance cost is perceived to be lower).

Estimating industry's volume to grow 12.4% CAGR

Domestic	FY14E	FY20E	CAGR (%)
Scooters	3,500,000	10,518,574	20.1
Motorcycles	10,400,102	17,361,371	8.9
Mopeds	700,000	938,067	5.0
Dom. industry vols (A)	14,600,102	28,818,012	12.0

Exports	FY14	FY20	CAGR (%)
Scooters	84,146	166,089	12.0
Motorcycles	1,927,918	4,459,392	15.0
Mopeds	5,302	8,414	8.0
Export industry vols (B)	2,017,366	4,633,895	14.9

Total industry vols (A+B)	16,617,468	33,451,907	12.4
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Source: MOSL

Would profitability for scooters be very different from motorcycles?

Based on our interaction with the industry, gross margins on scooters are slightly lower than motorcycle due to a) expensive automatic transmission and b) higher body components. However, EBITDA margins would be largely driven by the operating leverage and economies of scale, and is expected to be similar as motorcycle on comparable volumes. When we compare EBITDA margins of HMSI (large scooter contribution) with Hero MotoCorp (large motorcycle contribution), EBITDA margins for FY13 for HMSI were lower by ~70bp vis-à-vis HMCL (at 45% volumes of HMCL).

HMCL, TVSL well seated for scooter ride

BJAUT, however, decides to stay out to be a global motorcycle specialist

- While the increasing share of scooters could have a disruptive impact on listed players' domestic operations, a proactive business model would help to benefit from changing industry dynamics.
- By being the driver of the shift towards scooters, HMSI would continue to benefit. HMCL and TVSL are also well positioned for this migration.
- Despite its late entry in the segment, HMCL has become the second-largest scooter player, helped by its differentiated positioning aimed at the youth. It plans two new launches in FY15 coupled with 25% capacity expansion to 900k/year.
- TVSL is getting its act together with multiple launches in both the scooter and motorcycle space. With the recent launch of Jupiter, TVSL has a complete portfolio of scooter offerings. The upcoming launch of Scooty upgrade would further strengthen its position in the female scooter space.
- For now, BJAUT would lose out on this migration, as it has taken the strategic position of being a 'global motorcycle specialist'.

HMCL: Differentiated positioning in scooters, with focused marketing

- Though HMCL was a late entrant in the scooter space (entered in 2006), it has differentiated its positioning by targeting the youth as against competitors' focus on the family.
- Further, HMCL is preparing to strengthen its position by launching two scooters in FY15, along with expansion of its scooter capacity.
- We believe HMCL can outgrow the scooter market, leveraging its differentiated positioning based on customer understanding, wide reach and focused marketing.
- This coupled with added volumes from export markets and potential levers for margin expansion makes HMCL our top two-wheeler pick. **Buy** with a target price of INR2,680 (14x FY16E EPS).

TVSL: Dark horse with ingredients in place for sharp EPS growth

- TVSL is getting its act together by having relevant products in place in both the scooter and the motorcycle segments.
- A moderate success of the *Jupiter* and the upcoming executive segment motorcycle launch would drive significant operating leverage, margins and strong EPS growth.
- Further, any clarity on Indonesian operations (success of recent launch or closure of operations) could also act as a re-rating trigger for the stock.
- We believe FY15 would be critical year for TVSL due to (a) full benefit of launches in 2HFY14, and (b) multiple launches in FY15.
- It is a dark horse, with potential to deliver annualized returns of 25-30% CAGR over the next 2-3 years. We initiate coverage with a **Buy** rating and a target price of INR85 (9x FY16E standalone EPS).

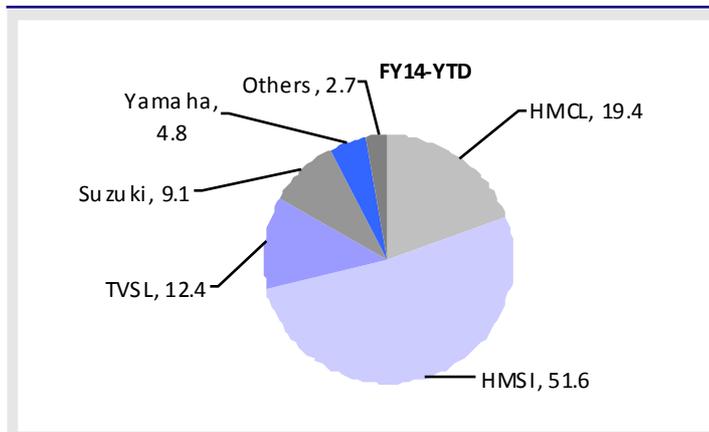
"Great brands are built on the foundation of sacrifices. Making more scooters doesn't mean making more money. We are a specialist motorcycle company. We won't venture out of that easily."

- Mr Rajiv Bajaj, Managing Director, BJAUT

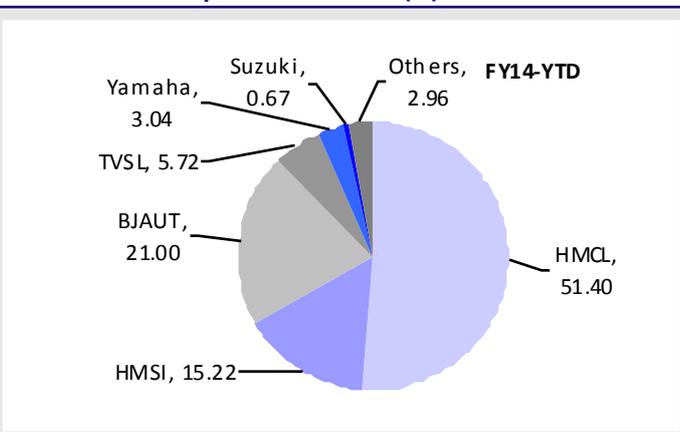
BJAUT: Would exports make up for absence in scooters?

- BJAUT would lose out in the domestic market, as it has taken a strategic decision to focus on being a 'global motorcycle specialist'.
- With its specialization strategy and focused approach, BJAUT aims to garner a higher share of the global motorcycle market together with industry-leading profitability.
- Based on 12% export volume CAGR over FY14-20, BJAUT could underperform the two-wheeler industry by 3%, considering its absence in the fast growing scooter industry.
- BJAUT would benefit on (a) uptrading in the domestic motorcycle market, driven by economic recovery, and (b) revival in exports, which could offset the negative of absence in scooters. **Buy** with a target price of INR2,255 (14x FY16E EPS). We prefer HMCL and TVSL to play the trend of rising scooter share.

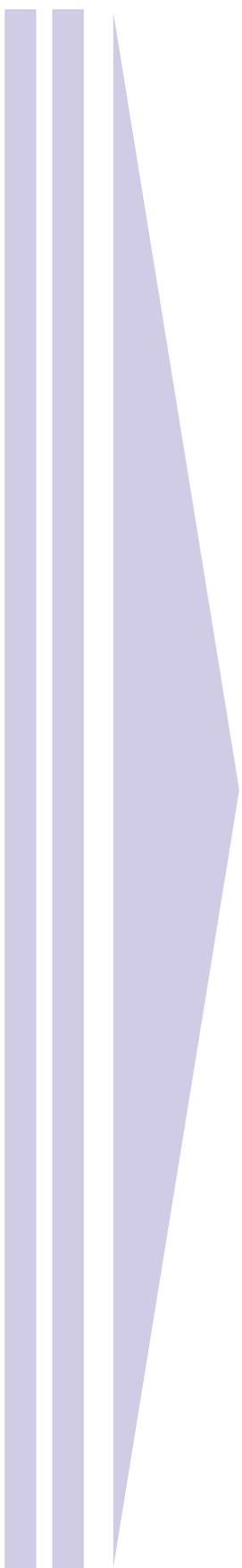
Domestic scooter market share



Domestic motorcycle market share (%)



Source: SIAM, MOSL





Hero MotoCorp

BSE SENSEX
20,716

S&P CNX
6,168

CMP: INR2,065

TP: INR2,680

Buy

Bloomberg	HMCL IN
Equity Shares (m)	199.7
M.Cap.(INRb)/(USD\$)	412.4/6.6
52-Week Range (INR)	2,150/1,434
1,6,12 Rel. Perf. (%)	1/21/3

Valuation summary (INR b)

Y/E March	2014E	2015E	2016E
Sales	256.5	297.0	339.8
EBITDA	37.3	43.2	49.5
NP	23.3	32.3	38.2
Adj. EPS (INR)	116.8	161.7	191.5
EPS Gr. (%)	(1.9)	38.4	18.5
BV/Sh. (INR)	291.2	371.5	475.9
RoE (%)	43.1	48.8	45.2
RoCE (%)	55.2	64.6	61.5
Payout (%)	64.0	49.8	45.0

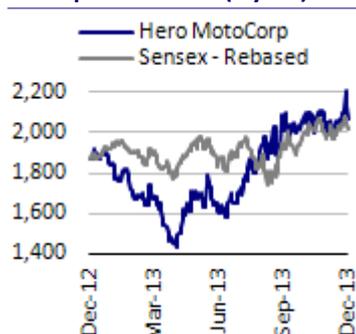
Valuations

P/E (x)	17.7	12.8	10.8
P/BV (x)	7.1	5.6	4.3
EV/EBITDA (x)	10.0	8.4	7.0
Div. Yield (%)	3.1	3.4	3.6

Shareholding pattern (%)

As on	Sep-13	Jun-13	Sep-12
Promoter	39.9	52.2	52.2
Dom. Inst	8.8	9.3	6.7
Foreign	42.8	30.0	32.5
Others	8.5	8.6	8.7

Stock performance (1 year)



Riding on sharply focused, differentiated brands

Focus mainly on youth segment; plans two more launches in FY15

- Despite a late entry, the differentiated positioning aimed at youth helps HMCL to be the second-largest scooter player.
- It plans to further strengthen the scooter portfolio with two new launches in FY15.
- Capacity expansion being undertaken by 25% to 900,000 units by Jan 2014 to meet rising demand.
- This coupled with added volumes from entry into new export markets and potential levers to improve margins, makes HMCL our top pick in the two-wheeler space. Maintain Buy with a target price of ~INR2,680 (14x FY16E EPS).

- **Focus mainly on youth segment as against competitors focus largely on family segment:** Although HMCL was a late entrant in the scooter space, it differentiated by positioning its products towards the youth segment, against competitors' focus on the family segment. While Hero Pleasure (2006 launch) is specifically designed and positioned at women, Maestro (2012 launch) is sharply positioned at the fast-growing yet untapped youth segment.

- **Two new scooter launches planned in FY15:** HMCL is preparing to further strengthen its scooter portfolio with two new launches in FY15. The new products are expected to be unveiled at the Auto Expo 2014 (February 2014). To meet the growing demand, company plans to increase the scooter production capacity by 25% to 900,000 units annually by Jan 2014.

- **HMCL to outgrow industry with differentiated positioning and new launches:** We believe HMCL can outgrow the scooter market by its differentiated positioning based on customer understanding, strong reach and focused marketing.

- **Volumes to pick-up driven by rural momentum, new product launches and entry in exports:** HMCL's volume momentum is expected to pick-up driven by a) full benefit of good monsoon starts reflecting in 2HFY14, b) product lifecycle turns favorable with ~15 launches (upgrades/refreshes) in October 2013 and new product launches in 1HFY15 and c) gradual ramp-up in exports over next 2-3 years. We are factoring in for volume growth of 5%/13.4%/12.8% for FY14/FY15/FY16 (2%/10%/12% for domestic motorcycle).

- **Multiple levers to margin expansion:** HMCL's EBITDA margins are expected to improve from FY14 levels, driven by a) no fixed royalty beginning July 2014 (~320bp in FY14) and b) potential savings driven by cost cutting initiatives yielding 4-5pp benefit over 30-40months.

- **HMCL our top pick in two-wheeler space:** HMCL offers strong rural presence, scooter market share gain and potential export ramp-up. This coupled with multiple margin levers, we expect 28% EPS CAGR over FY14-16E (factoring in only ~25bp accretion from cost saving initiatives). Maintain **Buy** with target price of ~INR2,680 (14x FY16E EPS).

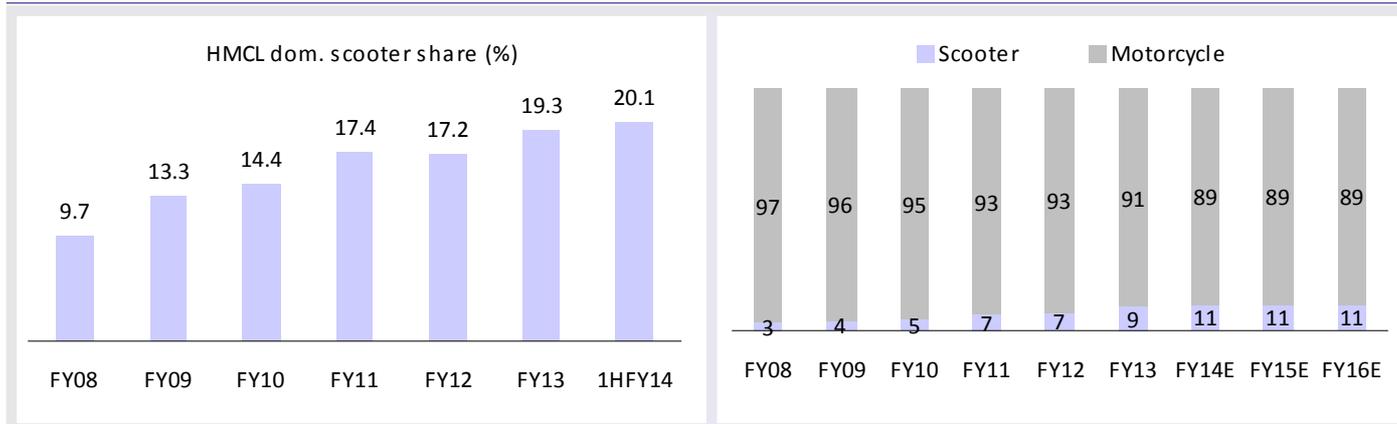
In scooters, HMCL is focused mainly on youth segment as against competitors focus largely on family segment

- Although HMCL was a late entrant in the scooter space, it differentiated by positioning its products towards the youth segment, against competitors' focus on the family segment.
- **Entered the scooter space in 2006 with launch of Hero Pleasure:** Sensing a shift in customer preferences, company entered the scooter space in 2006 with the launch of Hero Pleasure (100cc engine) scooter, specifically designed and positioned at women.
- **Expanded portfolio in 2012 to tap demand potential from youth segment:** In 2012, HMCL expanded its scooter portfolio with the launch of another scooter named Maestro. With its contemporary looks and brand endorsement by bollywood actor Ranbir Kapoor, Hero Maestro is sharply positioned at the fast-growing yet untapped youth segment.
- **Two new launches planned in FY15:** HMCL is preparing to further strengthen its scooter portfolio with two new launches in FY15. The new products are expected to be unveiled at the Auto Expo 2014 (February 2014).
- **Expanding capacity by 25% to meet rising demand:** To meet the growing demand, company plans to increase the scooter production capacity by 25% to 900,000 units annually by Jan 2014.
- **HMCL to outgrow industry with differentiated positioning and new launches:** We believe HMCL can outgrow the scooter market by its differentiated positioning based on customer understanding, strong reach and focused marketing.

HMCL estimated to grow at 10.7% CAGR, driven by scooters and exports

	FY14E	FY20E	CAGR (%)
Dom. M/C share (%)	51.2	46.2	
Dom. M/C vols.	5,322,675	8,017,320	7.1
Dom. Scooter share (%)	19.6	24.6	
Dom. Scooter vols.	687,163	2,591,065	24.8
Total dom. vols	6,009,838	10,608,384	9.9
Export vols.	259,056	950,000	24.2
Export share (%)	4.1	8.2	
Total (units)	6,268,895	11,558,384	10.7
Industry (Dom + Exports)	16,617,468	33,451,907	12.4
Underperformance			1.6

Source: MOSL

Sharply focussed, differentiated positioning helps gain share**Share of scooters on a rising trend (%)**

Source: Company, MOSL

Volumes to pick-up driven by rural momentum and new product launches

- Biggest beneficiary of good monsoon and expected government spending in rural markets (being an election year), given its high dependence and dominance in rural markets (~45% of volumes vs 35% for industry).
- Product life cycle turning favorable, with 15 new offerings (upgrades/refreshes) in October 2013 and planned new product launches in 1HFY15. Hero didn't have any launch since Nov-12, during which HMSI launched ~5 products.
- Despite no new launches in FY14YTD, it has been able to restrict market share loss, despite new launches from HMSI, on back of strong festive/marriage season demand reflecting its strength in rural markets.

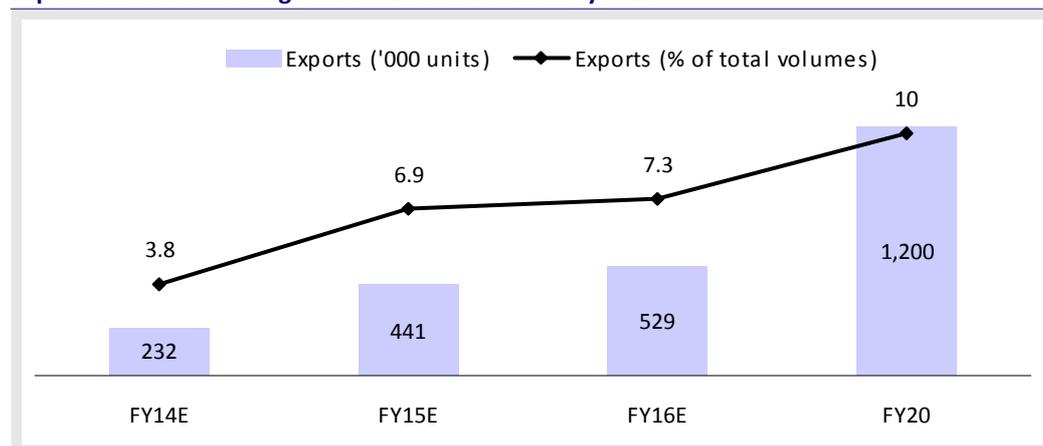
Export foray can support overall volume growth by 2pp p.a; to contribute 10% by FY20

- Post exit from JV with Honda, HMCL is looking to export beyond Sri Lanka, Nepal, Bangladesh and Colombia (markets where it was allowed to export by Honda). In line with the ambition to become a global two-wheeler major, HMCL has made an international foray in 2HFY13 covering Africa, Latin America and Central America.
- To support international operations, HMCL has already set up assembly operations in Sri Lanka and Kenya. It has plans to build 20 assembly facilities (including India) to expand the company's presence to 50 countries by the end of the decade.
- In recent media interaction, Mr Pawan Munjal, MD, HMCL said, "We will be selling in 50-plus countries by 2020 and produce 12 million motorcycles and scooters every year. This will come from 20 assembly lines from inside and outside the country." Despite near term challenges, management maintains FY20 export volume guidance of 1m units (10% of total volumes).
- While the near term outlook looks challenging in various key exports markets, the company is hopeful of better performance during 2HFY14. As of September 2013, it had presence in 10 countries, and plans to enter another 8 markets in 2HFY14 (four each in 3Q/4QFY14), taking total market coverage to ~18 (largely Africa and Latin America). However, benefit of entry into new markets would be only visible in FY15 onwards.
- Entry in new export markets can improve overall growth by 2pp p.a. We estimate exports of ~0.23m units in FY14, ~0.44m units in FY15 and ~0.53m units for FY16.

Present already in ~12 countries currently, to rise to ~18 by end-FY14

Markets	Distributor Partner	Products introduced/launched
Nepal	NGM	Introduced Hero Xtreme, Pleasure
Sri Lanka	ABANS	Launched HF Deluxe, HF Dawn, Splendor Pro, Splendor NXG, Super Splendor, Glamour, Passion Pro, Karizma ZMR, Hunk, Xtreme, Achiever
Central America (Guatemala, El Salvador and Honduras)	Indy Motos Group	Launched Hunk, Karizma, Glamour, HF Dawn, Splendor NXG, Super Splendor, Achiever
Peru	MOTOCORP SAC	Pleasure, Passion Pro, Glamour, Hunk, Thriller, Karizma ZMR and Karizma R
Kenya	RYCE East Africa	HF Dawn
Burkina Faso		
Ivory Coast		
Ecuador		

Source: MOSL, Company

Exports contribution targeted at ~10% of volumes by FY20

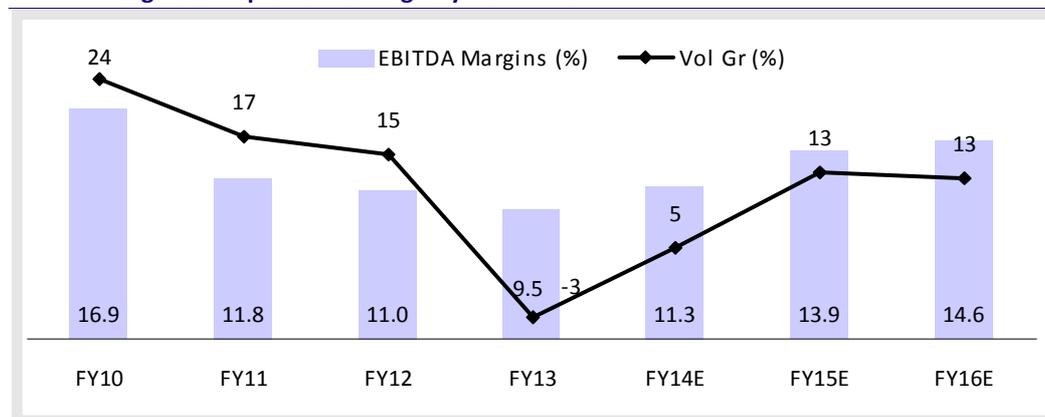
Source: MOSL, Company

Comprehensive margin improvement project can yield 400-500bp benefit over 30-40 months

- HMCL has initiated cost rationalization programme effective April 2013 with a team of 300 people to improve efficiencies and improve profitability of the company. The project would be carried out over five phases spread over 30 months (plus ~12 months for testing).
- Cost management project is expected to yield 4-5pp benefit over 30-40months, driven by a) value engineering/re-engineering of components (~65% currently sourced from associate companies), b) outbound logistics (driven by customized fleets & new Gujarat plant), and c) Optimizing marketing spend.
- The benefit of first phase was seen in 1HFY14 largely driven by value engineering/re-engineering of components of couple of models (entry level motorcycle and a scooter), some modifications on outbound logistics etc.
- For 2HFY14, the company has guided savings of INR600-800m with large ticket benefit to be visible only after 12-15 months.
- Overall, management expects annual savings of INR15-17b by FY18 (400-500bp of EBITDA margins). We estimate benefit of savings of ~INR700m (~25bp) in FY15.

- Further, royalty would stop from Jun-14, resulting in annual savings of ~INR8b or ~320bp at EBITDA level.
- However, it would need to invest in a) R&D (to increase from 0.4% in FY13, 0.7% in FY14E and 1.3-1.8% in FY15), and b) investments in export markets.

EBITDA Margins to improve meaningfully from FY15



Levers to profitability

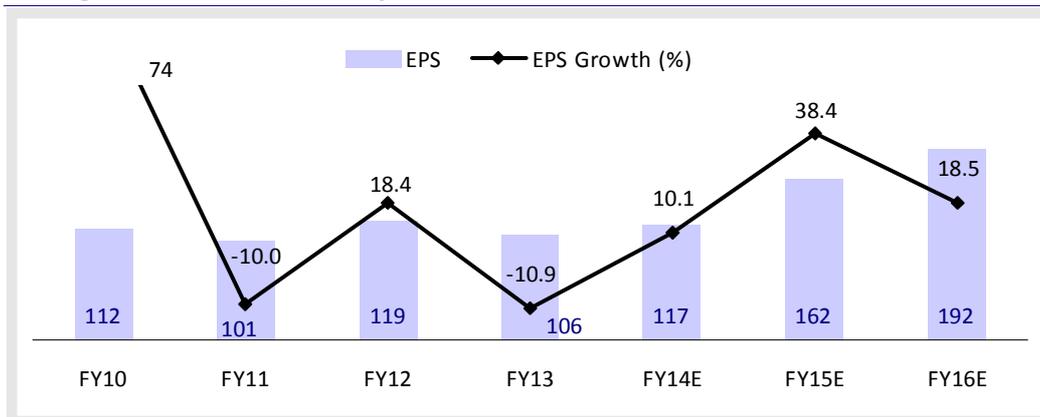
Base Case	FY14E	FY15E	FY16E	FY17E
Volume Growth (%)	5.0	13.4	12.8	13.0
Adj EBITDA Margins (%)	11.3	13.9	14.6	14.8
EPS (INR)	116.8	161.7	191.5	211.4
TP (14x)			2,680	2,960
Cost cutting initiatives: Base case 100bp savings in FY16				
Adj EBITDA Margins (%)	11.3	14.4	15.6	16.3
Implied cost savings (INR b)		1.5	3.4	5.7
EPS (INR)	116.8	167.1	203.9	232.1
EPS Upgrades (%)		3.4	6.4	9.8
TP (@ 16x)			3,262	3,714

Source: MOSL, Company

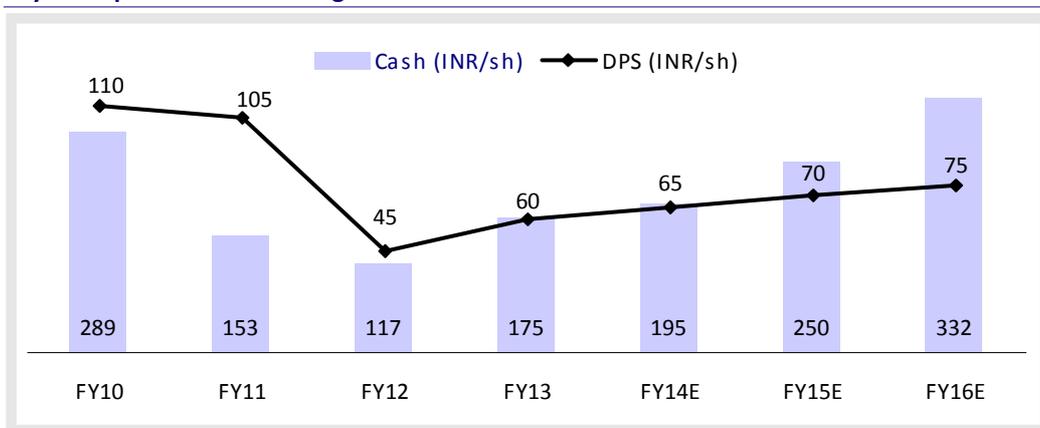
Hero MotoCorp our top-pick in two-wheelers; Buy

- HMCL offers strong rural presence, scooter market share gain and potential export ramp-up. This coupled with multiple margin levers, we expect 28% EPS CAGR over FY14-16E (factoring in only ~25bp accretion from cost saving initiatives).
- We are factoring in for volume growth of 5%/13.4%/12.8% for FY14/FY15/FY16 (2%/10%/12% for domestic motorcycle) for Hero MotoCorp, adj. EBITDA margins of 11.3%/13.9%/14.6% (+180bps/260bp/70bp) and EPS of ~INR117/INR162/INR191 for FY14/FY15 (v/s consensus INR109/INR143/INR165).
- The stock trades at 12.8x FY15 EPSE and ~10.8x FY16E EPS. Maintain **Buy** with target price of ~INR2,680 (14x FY16E EPS).

EPS to grow at 28% CAGR, after 4 years of muted EPS



Payout expected to remain high



Source: MOSL, Company

HMCL: Financials and Valuation

Income Statement		(INR Million)			
Y/E March	2012	2013	2014E	2015E	2016E
Volumes ('000)	6,235	6,074	6,380	7,237	8,164
Volume Growth (%)	15.4	-2.6	5.0	13.4	12.8
Net Sales	233,681	235,827	256,544	296,979	339,835
Change (%)	21.4	0.9	8.8	15.8	14.4
EBITDA	34,078	30,991	37,291	43,244	49,500
EBITDA Margin (%)	14.6	13.1	14.5	14.6	14.6
Adj EBITDA Margin (%)	11.0	9.5	11.3	13.9	14.6
Depreciation	10,973	11,418	11,432	5,781	4,499
EBIT	23,105	19,574	25,859	37,463	45,001
Interest cost	213	119	125	125	125
Other Income	5,756	5,838	6,109	6,735	7,812
PBT	28,647	25,292	31,843	44,073	52,688
Tax	4,866	4,110	8,522	11,789	14,441
Effective Rate (%)	17.0	16.3	26.8	26.7	27.4
PAT	23,781	21,182	23,321	32,284	38,248
Change (%)	23.4	-10.9	10.1	38.4	18.5
% of Net Sales	10.2	9.0	9.1	10.9	11.3
Adj. PAT	23,781	21,182	23,321	32,284	38,248
Change (%)	18.4	-10.9	10.1	38.4	18.5

Balance Sheet		(INR Million)			
Y/E March	2012	2013	2014E	2015E	2016E
Share Capital	399	399	399	399	399
Reserves	42,499	49,663	57,755	73,792	94,633
Net Worth	42,898	50,062	58,154	74,192	95,032
Deferred Tax	2,083	1,324	1,324	1,324	1,324
Loans	17,143	3,022	1,900	-100	-100
Capital Employed	62,124	54,408	61,378	75,416	96,256
Application of Funds					
Gross Fixed Assets	63,083	67,355	82,976	94,976	104,976
Less: Depreciation	25,228	36,645	48,077	53,858	58,357
Net Fixed Assets	37,855	30,710	34,899	41,117	46,619
Capital WIP	388	621	1,000	1,000	1,000
Investments	39,643	36,238	36,238	36,238	36,238
Curr.Assets, L & Adv.	21,003	28,848	34,050	47,548	68,989
Inventory	6,756	6,368	6,927	8,019	9,176
Sundry Debtors	2,723	6,650	7,234	8,374	9,583
Cash & Bank Balances	768	1,810	4,638	13,500	30,028
Loans & Advances	10,092	13,336	14,508	16,794	19,218
Others	664	683	743	861	985
Current Liab. & Prov.	36,765	42,008	44,809	50,488	56,590
Sundry Creditors	22,932	18,733	20,379	23,591	26,995
Other Liabilities	2,933	8,876	8,786	10,171	11,638
Provisions	10,901	14,399	15,644	16,727	17,956
Net Current Assets	-15,762	-13,161	-10,759	-2,940	12,399
Application of Funds	62,124	54,408	61,378	75,416	96,256

E: MOSL Estimates

HMCL: Financials and Valuation

Ratios		(INR Million)			
Y/E March	2012	2013	2014E	2015E	2016E
Basic (INR)					
EPS	119.1	106.1	116.8	161.7	191.5
EPS Growth (%)	18.4	-10.9	10.1	38.4	18.5
Cash EPS	132.0	120.2	132.2	190.6	214.1
Book Value per Share	214.8	250.7	291.2	371.5	475.9
DPS	45.0	60.0	65.0	70.0	75.0
Payout (Incl. Div. Tax) %	43.5	65.1	64.0	49.8	45.0
Valuation (x)					
P/E		19.5	17.7	12.8	10.8
Cash P/E		17.2	15.6	10.8	9.6
EV/EBITDA		12.2	10.0	8.4	7.0
EV/Sales		1.6	1.5	1.2	1.0
Price to Book Value		8.2	7.1	5.6	4.3
Dividend Yield (%)		2.9	3.1	3.4	3.6
Profitability Ratios (%)					
RoE	65.6	45.6	43.1	48.8	45.2
RoCE	49.9	43.6	55.2	64.6	61.5
Turnover Ratios					
Debtors (Days)	4	11	11	11	11
Inventory (Days)	11	10	10	10	10
Creditors (Days)	36	29	29	29	29
Working Capital (Days)	-25	-20	-15	-4	13
Asset Turnover (x)	3.8	4.3	4.2	3.9	3.5
Fixed Asset Turnover	5.9	6.9	7.8	7.8	7.7
Leverage Ratio					
Debt/Equity (x)	0.4	0.1	0.0	0.0	0.0
Cash Flow Statement		(INR Million)			
Y/E March	2012	2013	2014E	2015E	2016E
Profit before Tax	28,647	25,292	31,843	44,073	52,688
Depreciation & Amort.	2,807	3,941	3,082	3,781	4,499
Direct Taxes Paid	-5,827	-6,133	-8,522	-11,789	-14,441
(Inc)/Dec in Working Capital	-6,906	-7,872	-696	-956	1,188
Interest/Div. Received	698	1,073			
Other Items	-3,290	-3,800	125	125	125
CF from Oper. Activity	16,130	12,500	25,832	35,234	44,060
(Inc)/Dec in FA+CWIP	-5,034	-6,004	-7,650	-10,000	-10,000
(Pur)/Sale of Invest.	13,430	5,079	0	0	0
CF from Inv. Activity	8,396	-925	-7,650	-10,000	-10,000
Interest Paid	-213	-119	-125	-125	-125
Dividends Paid	-24,369	-10,444	-15,229	-16,247	-17,407
CF from Fin. Activity	-24,582	-10,563	-15,354	-16,372	-17,532
Inc/(Dec) in Cash	-56	1,012	2,827	8,863	16,528
Add: Beginning Balance	393	337	1,810	4,638	13,500
Closing Balance	337	1,349	4,638	13,500	30,028
E: MOSL Estimates					



Bajaj Auto

BSE SENSEX 20,716 S&P CNX 6,168

CMP: INR1,908

TP: INR2,255

Buy

Bloomberg	BJAUT IN
Equity Shares (m)	289.4
M.Cap.(INRb)/(USDb)	552/8.9
52-Week Range (INR)	2,229/1,656
1,6,12 Rel.Perf.(%)	-8/0/-16

Valuation summary (INR b)

Y/E March	2014E	2015E	2016E
Sales	210.5	241.0	281.9
EBITDA	43.5	50.3	59.4
NP	34.5	40.3	46.6
Adj. EPS (INR)	119.3	139.2	161.1
EPS Gr. (%)	13.4	16.7	15.8
BV/Sh. (INR)	333.9	403.3	488.9
RoE (%)	39.3	37.8	36.1
RoCE (%)	54.7	52.3	49.8
Payout (%)	49.0	50.1	46.9

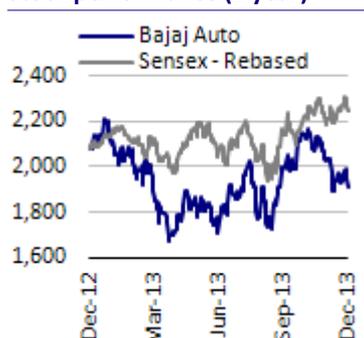
Valuations

P/E (x)	16.0	13.7	11.8
P/BV (x)	5.7	4.7	3.9
EV/EBITDA (x)	10.4	8.5	6.8
Div. Yield (%)	2.6	3.1	3.4

Shareholding pattern (%)

As on	Sep-13	Jun-13	Sep-12
Promoter	62.1	62.1	61.0
Dom. Inst	8.1	9.7	11.7
Foreign	11.1	9.7	10.5
Others	18.8	18.6	16.9

Stock performance (1 year)



Would exports make up for absence in scooters?

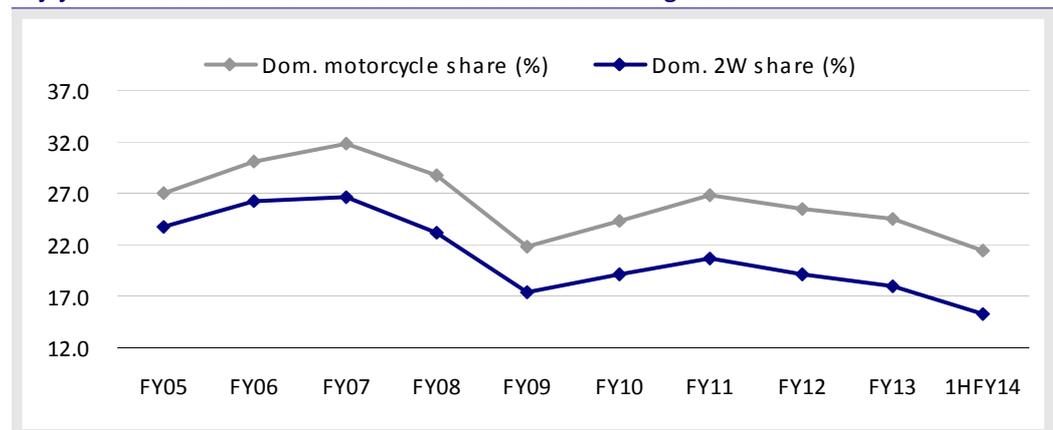
Asean, Brazil markets vital to sustain volume growth

- **Bajaj exited scooters segment in 2010 to be a global motorcycle specialist.** It aims to garner a higher market share in the global motorcycle market, together with industry leading profitability.
- **Company's strategy of specialization has worked well over the past few years, with superior profitability versus peers, despite weak motorcycle demand environment.**
- **However, inroads into Japan-dominated Asean and Brazilian market are imperative to maintain healthy volume growth over the long term, considering its absence from the scooter segment.**
- **Despite assuming 12% export volume growth, Bajaj could underperform the industry by 3% over FY14E-20E due to absence from scooters.**
- **Company would benefit on a) resumption in up-trading in domestic motorcycles driven by economic and consumer sentiment recovery and b) revival in exports, which could offset the negative of absence in scooters segment. We prefer HMCL and TVSL to play the trend of rising scooter share.**
- **Bajaj exited scooters to be a global motorcycle specialist:** Faced with declining scooter sales and the need to be a global motorcycle specialist, Bajaj exited the scooter space in 2010. With its specialization strategy, focused approach on motorcycles coupled with KTM and Kawasaki's association, Bajaj aims to garner a higher share of the global motorcycle market (currently estimated at 10%), together with industry leading profitability.
- **Specialization strategy lends superior profitability despite weak demand:** Bajaj's strategy of specialization has worked well over the past few years and has been one of the key reasons for its superior profitability versus peers, despite weak demand environment for motorcycles.
- **Inroads into Japan dominated Asean and Brazilian market imperative to maintain healthy volume growth over long term:** While the current growth in exports is driven by the under-developed and developing economies, going forward Bajaj due to its association with KTM and Kawasaki plans to aggressively enter the Japan dominated Asean (annual sales of 15m units) and Brazil market (annual sales of 2m units). Asean markets are dominated by Japan majors like Honda and Yamaha. Except Philippines, Bajaj's previous attempts into the Asean markets have been unsuccessful.
- **Company could underperform the industry due to absence from scooters:** Assuming a 12% export volume CAGR over FY14E-20E, Bajaj could underperform the two-wheeler industry by 3% due to absence from the fast-growing scooter industry.
- **Valuation & view:** While valuations at 14x FY15 and 12.1x FY16 EPS are reasonable, demand recovery along with stability in competitive intensity would be the key driver for the stock performance. Maintain **Buy** with target price of INR2,255 (14x FY16E EPS).

Bajaj exited scooters to be a global motorcycle specialist, with focus on superior profitability

- Faced with declining scooter sales and the need to be a global motorcycle specialist, Bajaj exited the scooter space in 2010.
- With its specialization strategy, focused approach on motorcycles coupled with KTM and Kawasaki's association, Bajaj aims to garner a higher share of the global motorcycle market (currently estimated at 10%), together with industry leading profitability.
- Recent comment by Rajiv Bajaj sums up their position on scooters "Great brands are built on the foundation of sacrifices. Making more scooters doesn't mean making more money. We are a specialist motorcycle company. We won't venture out of that easily."
- Bajaj's strategy of specialization has worked well over the past few years and has been one of the key reasons for its superior profitability versus peers, despite weak demand environment for motorcycles.
- However, BJAUT's market share has been impacted as scooter has grown at 2x of motorcycle volumes over last 5 years, as a result its domestic two wheeler market share has shrunk by 530bp since FY08 to ~17.9% in FY13 (~15.4% in 1HFY14).

Bajaj's market share in domestic two wheeler on a declining trend



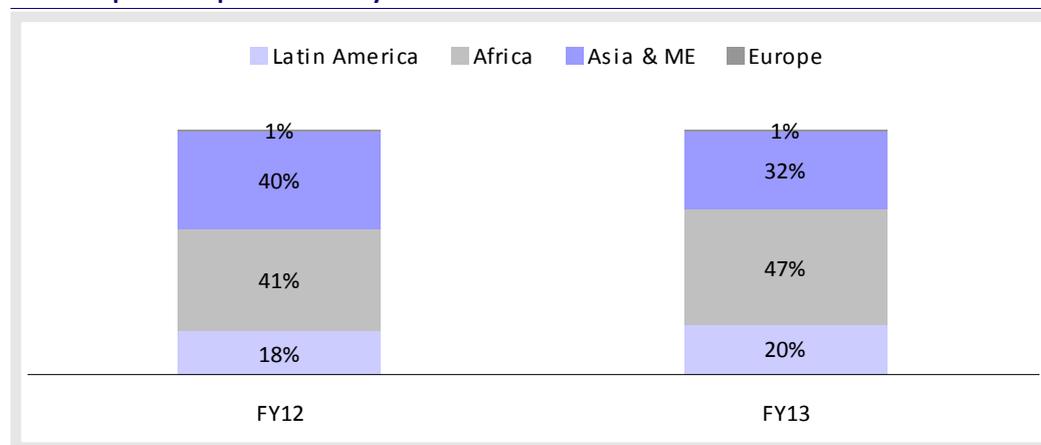
Source: Company, MOSL

Exports offers significant headroom to grow, but inroads into ASEAN and Brazil market key to maintain healthy growth

- Bajaj Auto, due to its headstart in exports and well placed global alliances (with KTM and Kawasaki), is best placed to benefit from this huge opportunity in the international market.
- While the current growth in exports is driven by the under-developed and developing economies, going forward Bajaj due to its association with KTM and Kawasaki plans to aggressively enter the Japanese dominated Asean (annual sales of 15m units) and Brazil market (annual sales of 2m units).
- ASEAN and Brazil markets are dominated by Japan majors like Honda and Yamaha. Except Philippines, Bajaj's previous attempts into the Asean markets have been unsuccessful. Both of its alliances with KTM (for LatAm) and Kawasaki (for ASEAN) are expected to play major role in gaining foothold in these two markets.

- In most of its existing export markets, BJAUT is the market leader and is expected to grow in-line with the industry with limited scope of further market share gain.

BJAUT exports are predominantly to Africa and South Asia



Source: Company, MOSL

Could underperform the industry in the long term due to absence in scooters

- Assuming a 12% export volume CAGR over FY14E-20E, Bajaj could underperform the two-wheeler industry by 3% due to absence from the fast-growing scooter industry.
- However, Bajaj could benefit from:
 - Up-trading in domestic motorcycles driven by economic and consumer sentiment recovery
 - Revival in exports, which could offset the negative of absence from scooters segment.
- Based on our estimates, we expect BJAUT motorcycle volumes to grow at 9.1% CAGR over FY14-20E vis-à-vis industry growth (including exports) of 12.4%. It would be critical for BJAUT to succeed in ASEAN and Brazilian markets (not factored in our estimates) to make-up for absence in scooters.

Bajaj Auto to underperform industry growth due to lack of presence in scooters

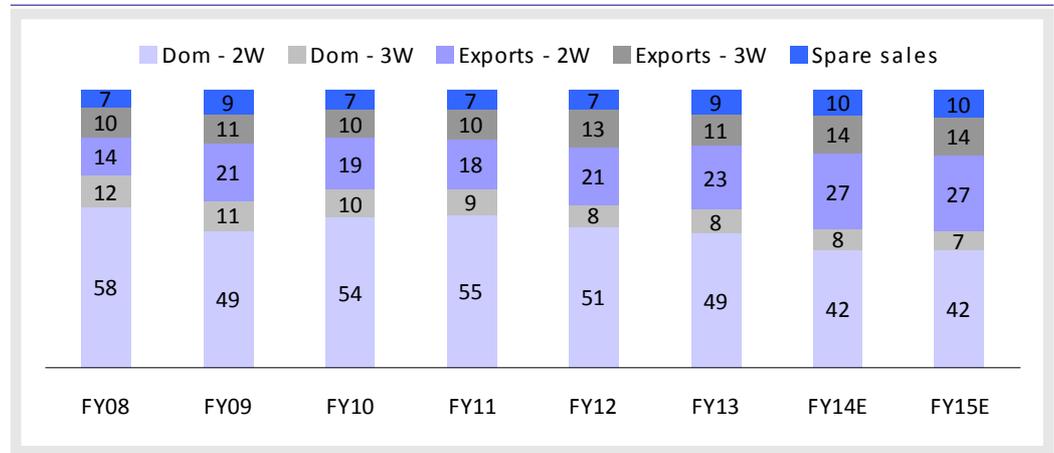
Bajaj	FY14E	FY20E	CAGR (%)
Dom. M/C share (%)	22	20	
Vols.	2,288,022	3,472,274	7.2
Implied dom. 2W share (%)	15.7	12.0	3.6
Export vols.	1,286,810	2,539,934	12.0
Export share (%)	36.0	42.2	
Total (units)	3,574,832	6,012,208	9.1
Industry (Dom + Exports)	16,617,468	33,451,907	12.4
Underperformance			3.3

Source: MOSL

Well diversified product/market mix, with limited exposure to domestic executive level segment

- Well diversified product/market mix, with 2W exports & 3W volumes contributing 27% & 21% respectively to total revenues.
- Exposure upto 110cc motorcycle segment, where competitive intensity is increasing, is only ~29% of volumes.
- Exports, which are scaling up rapidly, is expected to contribute ~41% to FY14 revenues, and would benefit from alliance with Kawasaki (market access) and KTM (access to brand, technology & markets).
- Bajaj’s 3W passenger business is virtual monopoly with over 85% market share in permit segment and ~65% market share in over all passenger segment. 3W business enjoys margins of over 30%.

Well diversified revenues, with domestic two-wheelers contributing ~42%

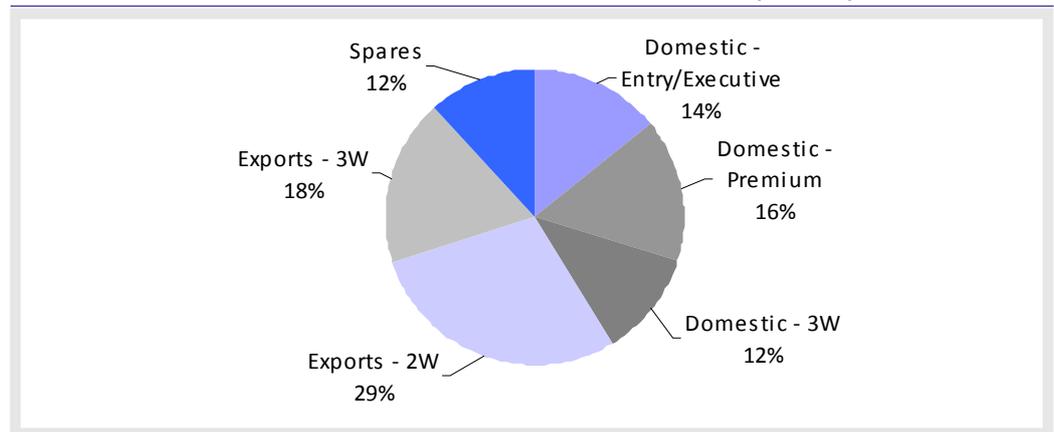


Source: Company, MOSL

Only ~15% of EBITDA at risk due to HMSI’s focus on entry/executive level motorcycle

- Considering BJAUT’s well diversified product portfolio and market mix, we estimate ~28% EBITDA contribution from domestic motorcycle and ~14% from domestic entry/executive segment motorcycle (as of 1HFY14).
- Exports contribute ~50% to EBITDA, where as domestic premium segment and domestic 3W would contribute ~14%/12%.

EBITDA contribution from domestic two-wheeler business at ~28% (1HFY14)

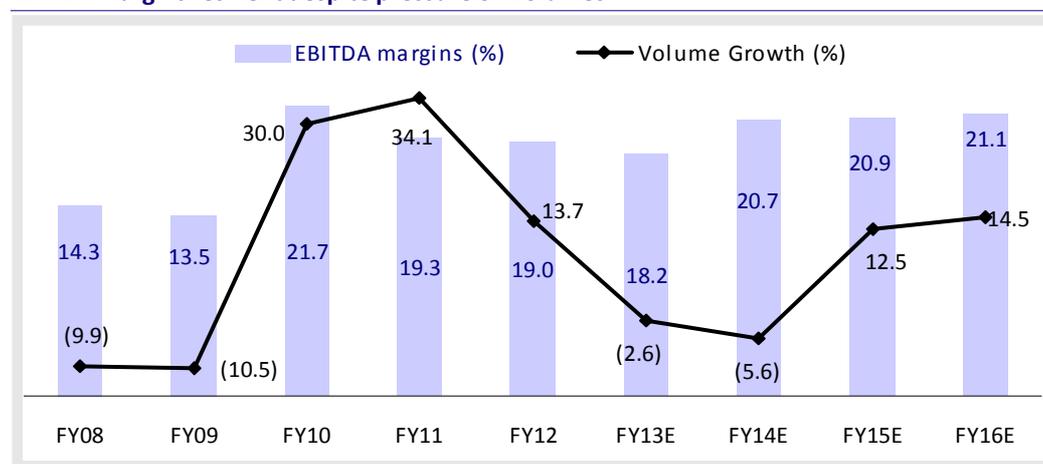


Source: Company, MOSL

Margin resilience despite various adverse developments, a reflection of business model and weaker INR

- BJAUT's maintained its profitability in 18-20% range in FY13 despite a) adverse product mix (lower exports to high margin Sri Lanka market), reduction in export incentives (from 5.5% to 2% effective Oct-12) and marginal decline in volumes.
- Margin resilience signifies the success of its twin brand strategy as well as reflects the inherent strength of its strategy of differentiation and deeper market segmentation.
- BJAUT, being one of the largest net exporters from India, would be one of the biggest beneficiaries of weak INR.
- We estimate exports of ~USD1.4/USD1.6b in FY14/FY15, at USD/INR rate of 60. For every INR1 movement, BJAUT's margins/EPS for FY15 change by 50bps/2.7%.

EBITDA margins resilient despite pressure on volumes



Source: Company, MOSL

Valuation & view

- We believe BJAUT's lack of presence in scooter is made up with its well diversified product portfolio, significant headstart in exports, well positioned global strategic alliances, premium profitability and consistent step-up in dividends.
- However, its decision to be a global motorcycle specialist and sacrificing opportunity in scooter segment, would result in BJAUT missing out in strong growth potential of the scooter segment.
- We are downgrading our FY14/FY15 EPS estimates by ~2% each to ~INR119/INR139 to factor in for weak volume momentum.
- While valuations at 13.7x FY15 and 11.8x FY16 EPS are reasonable, demand recovery along with stability in competitive intensity would be the key driver for the stock performance. Maintain **Buy** with target price of ~INR2,255 (14x FY16E EPS).

BJAUT: Financials and Valuation**Income Statement****(INR Million)**

Y/E March	2012	2013	2014E	2015E	2016E
Volumes	4,349,560	4,237,151	4,000,094	4,500,473	5,153,493
Change (%)	13.7	-2.6	-5.6	12.5	14.5
Net Sales	195,290	199,973	210,535	240,996	281,859
Change (%)	19.1	2.4	5.3	14.5	17.0
EBITDA	37,200	36,353	43,500	50,285	59,406
Change (%)	17.3	-2.3	19.7	15.6	18.1
EBITDA Margins (%)	19.0	18.2	20.7	20.9	21.1
Depreciation	1,456	1,640	1,793	2,013	2,148
EBIT	35,744	34,713	41,707	48,272	57,258
Int. & Fin. Charges	222	5	13	10	10
Other Income	6,080	7,955	7,614	9,274	9,357
Non-recurring Exp.	1,340	0	0	0	0
PBT	40,262	42,662	49,308	57,536	66,605
Tax Rate (%)	25.4	28.7	30.0	30.0	30.0
PAT	30,041	30,436	34,515	40,276	46,623
Adj. PAT	31,069	30,436	34,515	40,276	46,623
Change (%)	18.8	(2.0)	13.4	16.7	15.8

Balance Sheet**(INR Million)**

Y/E March	2012	2013	2014E	2015E	2016E
Share Capital	2,894	2,894	2,894	2,894	2,894
Reserves	57,517	76,126	93,714	113,811	138,573
Net Worth	60,411	79,020	96,608	116,704	141,467
Deferred Tax	484	1,151	2,137	3,288	4,620
Loans	975	713	713	713	713
Capital Employed	61,870	80,883	99,457	120,705	146,800
Gross Fixed Assets	33,961	38,289	43,224	46,224	49,224
Less: Depreciation	19,143	20,244	22,037	24,050	26,198
Net Fixed Assets	14,817	18,044	21,187	22,174	23,026
Capital WIP	417	2,936	1,000	1,000	1,000
Investments	48,828	64,305	64,305	64,305	64,305
Current Assets	46,749	39,502	66,147	95,025	129,127
Inventory	6,785	6,363	7,853	9,016	10,571
No. of Days	16	14	17	17	17
Sundry Debtors	4,228	7,676	4,834	5,549	6,506
Cash & Bank Balances	16,538	5,589	34,125	58,956	86,837
Loans & Advances	16,227	17,741	16,314	18,035	21,146
Others	2,970	2,133	3,021	3,468	4,067
Current Liab. & Prov.	48,941	43,903	53,181	61,799	70,659
Sundry Creditors	20,031	19,796	22,960	26,360	30,906
No. of Days	52	50	58	59	59
Other Liabilities	7,161	6,682	6,042	6,937	8,133
Provisions	21,749	17,425	24,178	28,503	31,620
Net Current Assets	-2,192	-4,401	12,966	33,226	58,469
No. of Days	1	1	1	1	1
Application of Funds	61,870	80,883	99,457	120,705	146,800

E: MOSL Estimates

BJAUT: Financials and Valuation

Income Statement			(INR Million)		
Y/E March	2012	2013	2014E	2015E	2016E
Basic (INR)					
EPS	107.4	105.2	119.3	139.2	161.1
Core EPS	90.6	83.2	98.2	113.5	135.3
Cash EPS	112.4	110.8	125.5	146.1	168.5
Book Value per Share	208.8	273.1	333.9	403.3	488.9
DPS	45.0	45.0	50.0	60.0	65.0
Payout (Incl. Div. Tax) %	48.7	49.7	49.0	50.1	46.9
Valuation (x)					
P/E	17.8	18.1	16.0	13.7	11.8
Cash P/E	17.0	17.2	15.2	13.1	11.3
EV/EBITDA	13.1	13.3	10.4	8.5	6.8
EV/Sales	2.5	2.4	2.2	1.8	1.4
Price to Book Value	9.1	7.0	5.7	4.7	3.9
Dividend Yield (%)	2.4	2.4	2.6	3.1	3.4
Profitability Ratios (%)					
RoE	56.7	43.7	39.3	37.8	36.1
RoCE	73.0	59.8	54.7	52.3	49.8
Turnover Ratios					
Debtors (Days)	8	13	8	8	8
Inventory (Days)	12	11	13	13	13
Creditors (Days)	36	34	38	38	38
Working Capital (Days)	-16	-10	-17	-17	-17
Leverage Ratio					
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0
Cash Flow Statement			(INR Million)		
Y/E March	2012	2013	2014E	2015E	2016E
OP/(Loss) before Tax	38,829	34,713	41,707	48,272	57,258
Interest/Div. Received	3,261	7,955	7,614	9,274	9,357
Depreciation & Amort.	1,456	1,640	1,793	2,013	2,148
Direct Taxes Paid	-11,483	-11,560	-13,806	-16,110	-18,649
(Inc)/Dec in Working Capital	797	-8,740	11,169	4,571	2,639
CF from Oper. Activity	32,860	24,007	48,476	48,020	52,752
(Inc)/Dec in FA+CWIP	-1,159	-7,386	-3,000	-3,000	-3,000
(Pur)/Sale of Invest.	-6,557	-15,477	0	0	0
CF from Inv. Activity	-7,716	-22,862	-3,000	-3,000	-3,000
Inc. / Dec.in Networkth	0	3,307	0	0	0
Inc/(Dec) in Debt	-2,001	-262	0	0	0
Interest Paid	-222	-5	-13	-10	-10
Dividends Paid	-13,420	-15,134	-16,927	-20,179	-21,860
CF from Fin. Activity	-15,644	-12,094	-16,940	-20,189	-21,870
Inc/(Dec) in Cash	9,501	-10,950	28,536	24,831	27,881
Add: Beginning Bal.	5,565	16,538	5,589	34,125	58,956
Closing Balance	15,066	5,589	34,125	58,956	86,837

E: MOSL Estimates



TVS Motor

BSE SENSEX 20,716 S&P CNX 6,168

CMP: INR54

TP: INR85

Buy

Bloomberg	TVS IN
Equity Shares (m)	475.1
M.Cap.(INRb)/(USD\$b)	25.5/0.4
52-Week Range (INR)	56/28
1, 6, 12 Rel. Per (%)	10/50/32

Valuation summary (INR b)

Y/E March	2013	2014E	2015E
Sales	78.5	93.3	106.9
EBITDA	4.6	5.9	7.1
Adj. PAT	2.5	3.6	4.5
EPS (INR)	5.3	7.5	9.4
EPS Gr. (%)	39.9	40.4	25.9
BV/Sh (INR)	29.8	35.0	41.5
RoE (%)	19.2	23.1	24.6
RoCE (%)	19.3	24.3	26.9
Payout (%)	30.2	31.3	31.0

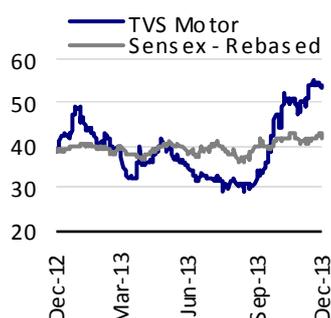
Valuations

P/E (x)	10.1	7.2	5.7
P/BV (x)	1.8	1.5	1.3
EV/EBITDA (x)	6.4	4.6	3.4
Div. Yield (%)	2.8	3.7	4.7

Shareholding pattern (%)

As on	Sep-13	Jun-13	Sep-12
Promoter	57.4	57.4	57.4
Dom. Inst	18.3	18.1	18.3
Foreign	2.9	3.0	1.7
Others	21.4	21.5	22.6

Stock performance (1 year)



A dark horse

Well seated for scooter ride, good product pipeline; favorable risk-reward

- **TVSL is well positioned to benefit from the scooterization wave with its complete scooter portfolio.** Over the next 12-18 months, TVSL plans to launch multiple products across segments to reinforce and fill gaps in product portfolio.
- **Operating leverage and mix to drive margins from 5.8% in FY14E to 6.7% in FY16E.**
- **EBITDA losses in Indonesian operations continue to reduce.** Any further clarity (success of recent launch or closure of operations) could also act as a re-rating trigger.
- **Expect earnings CAGR of 33%, FCF of 24.8% over FY14E-16E with return ratios (RoE) improving from 19.2% in FY14E to 24.6% in FY16E.**
- **Initiate coverage with a Buy rating and target price of INR85. We value TVSL at 9x FY16E standalone EPS.**
- **TVSL is well positioned to benefit from the scooter ride:** With the recent launch of Jupiter, TVSL has the complete range of scooters, with product across every sub-segment (women, unisex, men). Response to Jupiter has been strong, with a waiting period of three months in non-South markets (South launch, 60% of TVSL scooter market, expected in 4QFY14). Upcoming launch of Scooty Zest (110cc engine, currently offering 90cc variant) will further strengthen its positioning in the women's scooter space. Expect scooter volumes to register a CAGR of 19.5% over FY14E-16E driven by product actions, capacity ramp-up and robust scooter industry growth.
- **Strong product pipeline to reinforce, fill gaps in portfolio:** Limited product actions were the key reason for significant market share loss from 22.3% in FY03 to 12% in 1HFY14. Unlike the past, TVSL has a strong product pipeline and plans to launch a product every quarter, including two new executive motorcycles and diesel three-wheeler.
- **Success of new launches could give disproportionate gains given wide distribution network and low base:** Due to its widespread distribution network (second best to Hero Moto) and low base, success of any one or two launches could drive disproportionate gains in market share and volumes.
- **Expected recovery in South from 4QFY14 to drive cyclical recovery in volumes:** TVSL has high exposure to South/Tamil Nadu with 56%/33% of its FY13 volumes (v/s industry share of 31%/11%) respectively. With a favorable monsoon, adequate water levels in reservoirs and reducing power deficit, recovery in demand from southern market is expected to drive strong volume improvement from 4QFY14. New launches, expected recovery in South (56% of volumes) coupled with robust 19.5% CAGR in scooter volumes to drive 13.2% CAGR in overall volumes over FY14E-16E
- **Sale of non-core investments coupled with healthy cash from operations to transform the company into net cash:** Healthy cash from operations (FCF CAGR of 24.8% over FY14E-16E) coupled with sale of non-core investments would transform the company into net cash by FY16E from net debt of INR6.2b

in FY13. TVSL recently sold its majority stake in its energy venture thereby reducing consolidated debt by INR2.6b.

- **EBITDA losses in Indonesian operations reduce:** Recent launch of Skubek TVSL Dazz (automatic transmission step-thru, 61% of the market) could improve company's Indonesia performance. We, however, conservatively factor annual EBITDA losses and incremental investments of INR500m over FY14E-16E (v/s FY13 EBITDA loss of INR375m and NIL investments in FY13). Total investments would increase from INR4.7b in FY13 to INR6.2b by FY16E.
- **BMW Motorrad tie-up to give additional revenue stream and technological edge:** We believe this tie-up would give TVSL an additional revenue stream in the form of contract manufacturing for BMW Motorrad. Moreover, it would give an aspirational value to TVSL products, particularly for its premium products. TVSL would invest EUR20m over CY13-15 with first product expected to be launched by CY15-end. Due to inadequate details, we have not factored the P&L implications, though we have covered the investment requirements on a conservative basis.

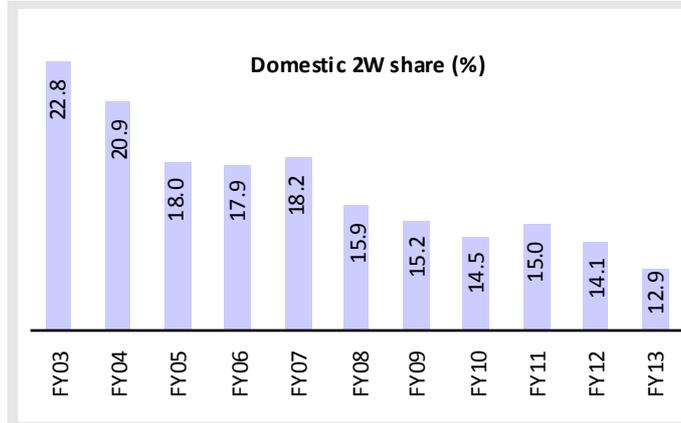
Valuation and view: Risk-reward favorable; bull case returns could be 80%

- Considering well positioned scooter portfolio, robust product pipeline coupled with possibility of disproportionate gains on new launch success, we believe risk-reward is favorable.
- Expect earnings CAGR of 33% over FY14E-16E driven by volume CAGR of 13.2%, margin improvement of 5.8% to 6.7% by FY16 and reduction in interest cost.
- Initiate coverage with a Buy rating and target price of INR85. We value TVSL at 9x FY16E standalone EPS.
- **Key risks:** 1) Failure of new launches, 2) higher than estimated cash losses in Indonesian operations, 3) Higher than expected investments outside standalone business.

Story in charts

- ❶ Significant market share loss over last 10 years due to limited product actions compared to peers
- ❷ Unlike past, TVSL has a robust product pipeline over the next 12-18 months, including two new motorcycles
- ❸ Expected recovery in South to benefit TVSL considering its high exposure (56% of vols.) versus industry (31%)
- ❹ New launch success could give disproportionate gains given wide network and low base
- ❺ New launches, strong scooter growth and recovery in South to drive volume CAGR of 13.2% over FY14E-15E
- ❻ Strong 16.7% CAGR in revenues driven by volume growth of 13.2% CAGR and realization increase.

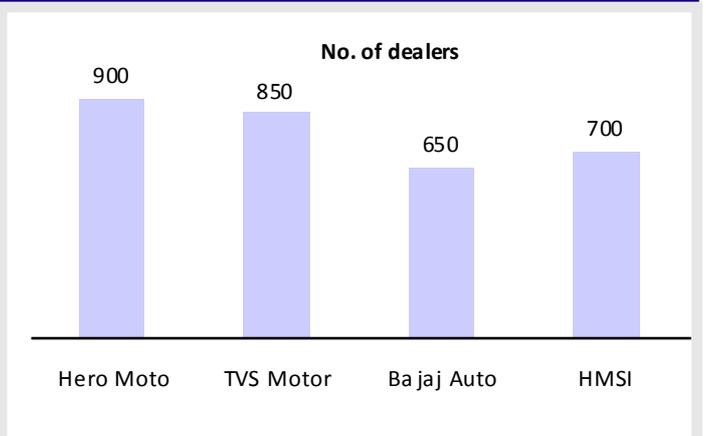
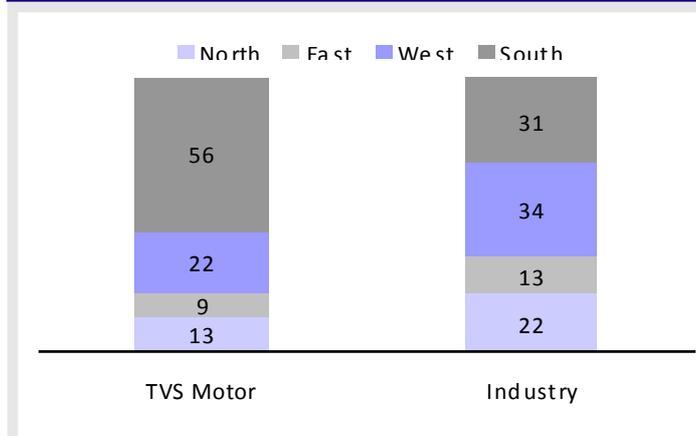
❶ Significant market share loss over last 10 years



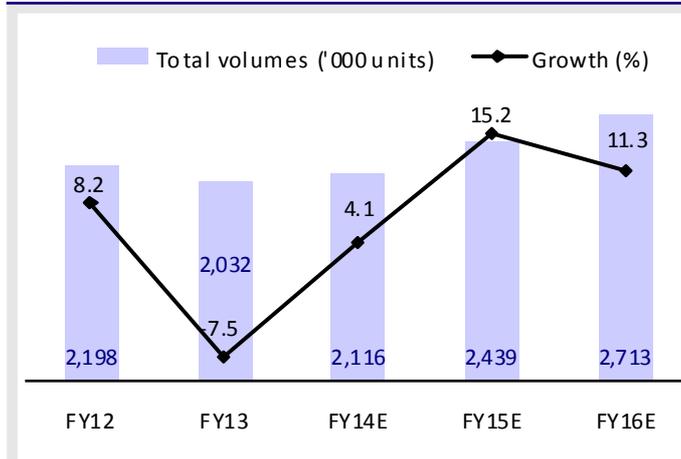
❷ Robust product pipeline over 12-18 month (indicative)

Timeline	Product	Comments
2QFY14	Jupiter	Launch in non-South states
4QFY14	Jupiter	Launch in Southern states (60% of TVSL scooter market)
4QFY14	Scooty Zest	110cc engine as in Wego, Jupiter
4QFY14	Star City	Product upgrade (all-new platform)
1QFY15	Diesel 3W	Diesel segment constitute 65% of three-wheeler market
1QFY15	Victor	To share platform with Star City upgrade model
1HFY15	4-stroke Moped	To improve fuel efficiency significantly

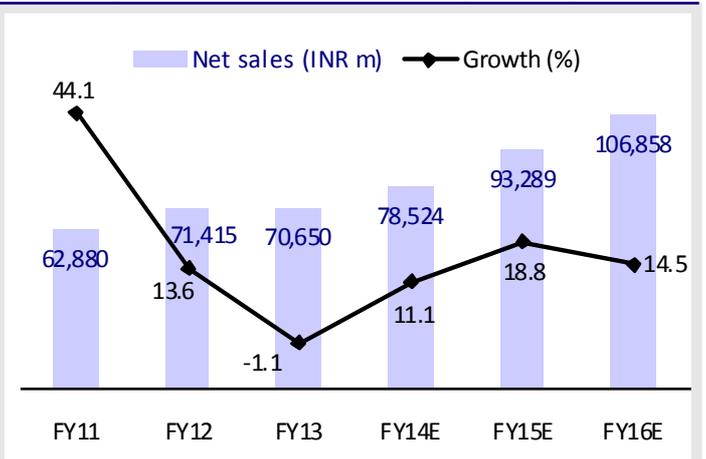
❸ Expected recovery in South 4Q onwards beneficial to TVSL (%) ❹ Wide distribution to be supplemented with new launches



❺ Expect volume CAGR of 13.2% over FY13-15E



❻ Strong 16.7% CAGR in revenues led by volume growth

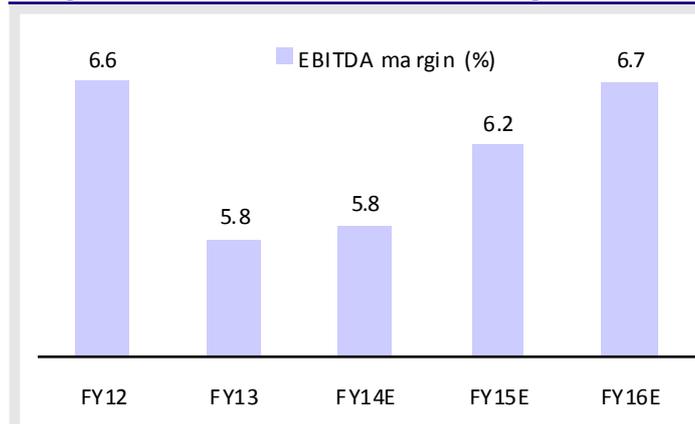


Story in charts

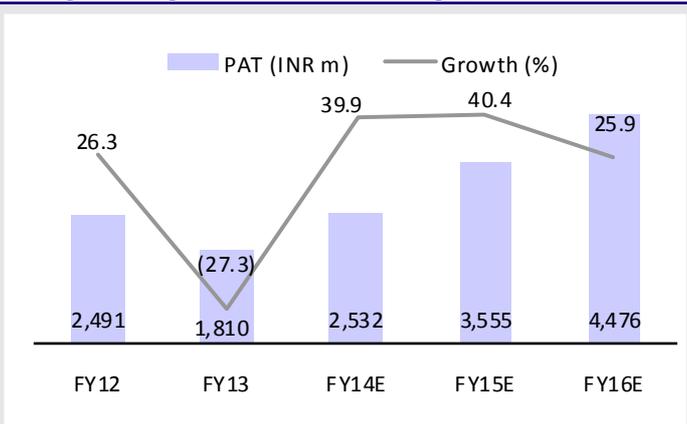
- ❶ Expect margins to improve on higher volumes and better mix
- ❷ Return ratios to improve with higher revenue growth and better profitability
- ❸ High cash from operations, limited investments outside standalone business to transform into net cash company

- ❹ PAT growth to be higher with better margins and lower interest cost
- ❺ FCF to register a CAGR of 24.8% over FY14E-16E despite high capex
- ❻ EBITDA losses on a reducing trend in Indonesia, further clarity (on closure of operations) a re-rating trigger

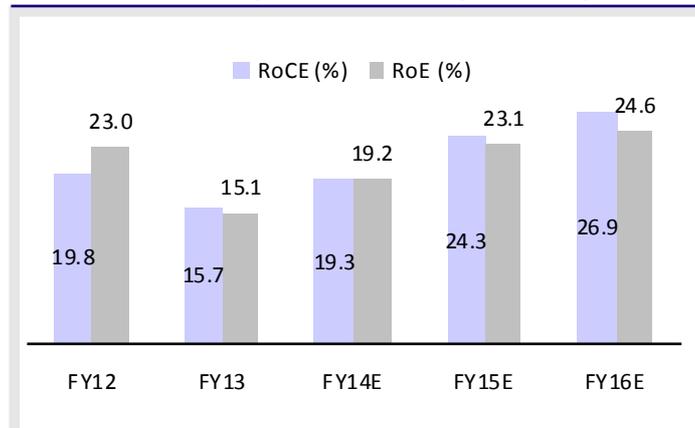
❶ Higher volumes and better mix to drive margins



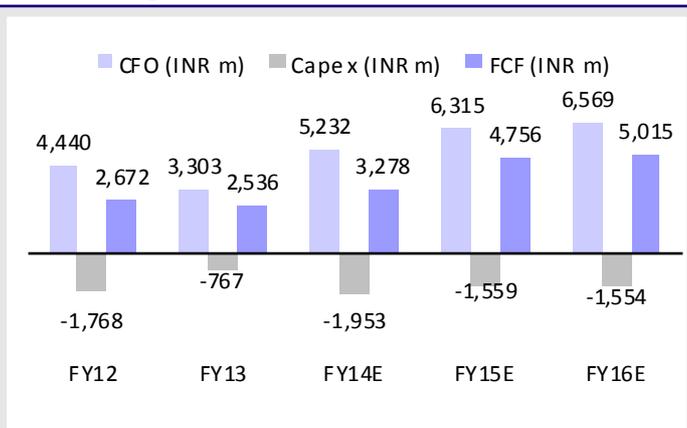
❷ Higher PAT growth with better margin, lower interest cost



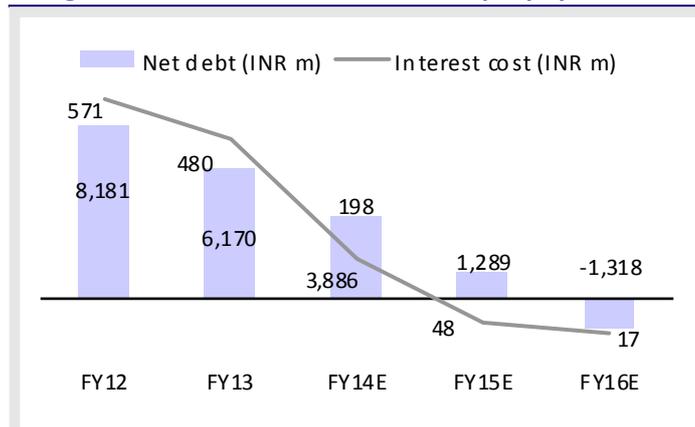
❸ Return ratios to improve with better profitability



❹ FCF to register a CAGR of 24.8% over FY14E-15E



❸ High FCF to transform into net cash company by FY16E



❻ EBITDA losses reducing in Indonesia (INR m)

	FY10	FY11	FY12	FY13
Sales volumes (units)	15,000	19,800	23,000	19,000
Growth (%)		32.0	16.2	-17.4
Revenues	683	854	1,074	1,000
EBITDA	-642	-584	-490	-375
EBITDA Margin (%)	-94.0	-68.4	-45.6	-37.5
PAT	-1,017	-623	-1,124	-245
Cumm. Investments	2,928	3,524	4,742	4,742
% of S/A Net Worth	33.8	35.3	40.5	38.7

FY13 post USD16.7m gain on sale of surplus land

Stretched R&D impacted TVSL' market share

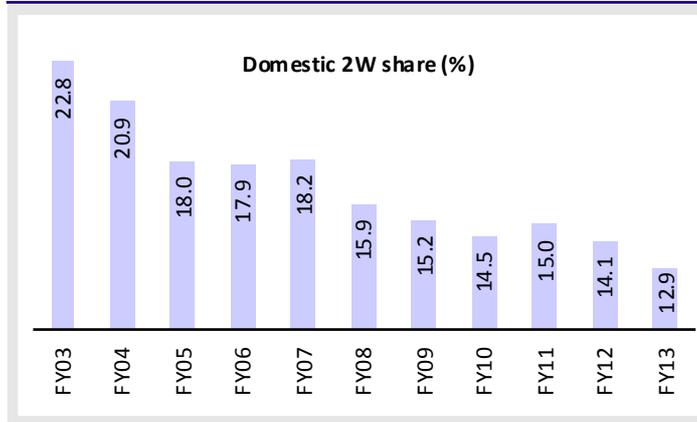
Limited launches, product specific issues, shift in market preference for bigger scooters significantly dented its market position

- Constrained R&D bandwidth, post split with Suzuki in 2001, led to inadequate product actions in the past.
- Despite launching motorcycles at par on technology with peers over the last three to five years, it suffered due to product specific issues.
- Shift in market preference for bigger/higher engine capacity scooter impacted its share in scooters.

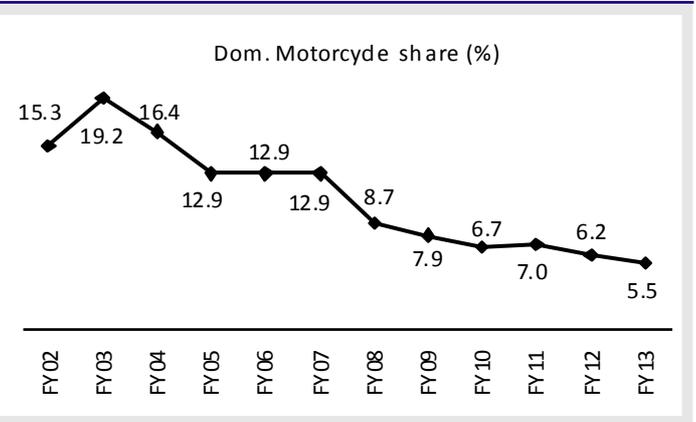
"R&D handled too many projects at the same time."- Mr KN Radhakrishnan, President, TVSL in an interview with Business Today in April 2008

- **Constrained R&D bandwidth, post split with Suzuki in 2001, led to inadequate product actions in the past:** During the early phase of ramping up its R&D capabilities (post split with Suzuki in 2001), TVSL had spread itself too thin. At one point, the R&D team was working on five projects that were diverse in terms of segments (entry, executive and premium motorcycles), geographies (a step-through model for the Indonesian market) and a three-wheeler. This constrained TVSL' R&D bandwidth which resulted in relatively lower new launches/timely upgrades of existing successful products like *Victor*.
- **Despite launching motorcycles at par on technology with peers over the last 3-5 years, it suffered due to product specific issues:** For instance, *Jive* (110cc auto-clutch motorcycle) was a technologically innovative product. However, it failed to find acceptance among customers. Similarly, *TVS Flame* (aggressive styling with 'twin-spark-plug' technology) lost its momentum due to the long drawn legal battle with Bajaj Auto (which TVSL won in the Supreme Court in 2009).
- **Shift in market preference for bigger/higher engine capacity scooter impacted its share in scooters:** TVSL was the second largest player in the scooter segment, with 26.6% share in FY06. However, its product offering in scooters was entirely dependent on *Scooty* brand (only 70cc variant then). With launch of *Hero Pleasure* in 2006 (with a bigger 100cc engine) coupled with rising preference for family scooter (due to universal appeal), TVSL lost significant market share in scooters.

Significant decline in market share over the years...



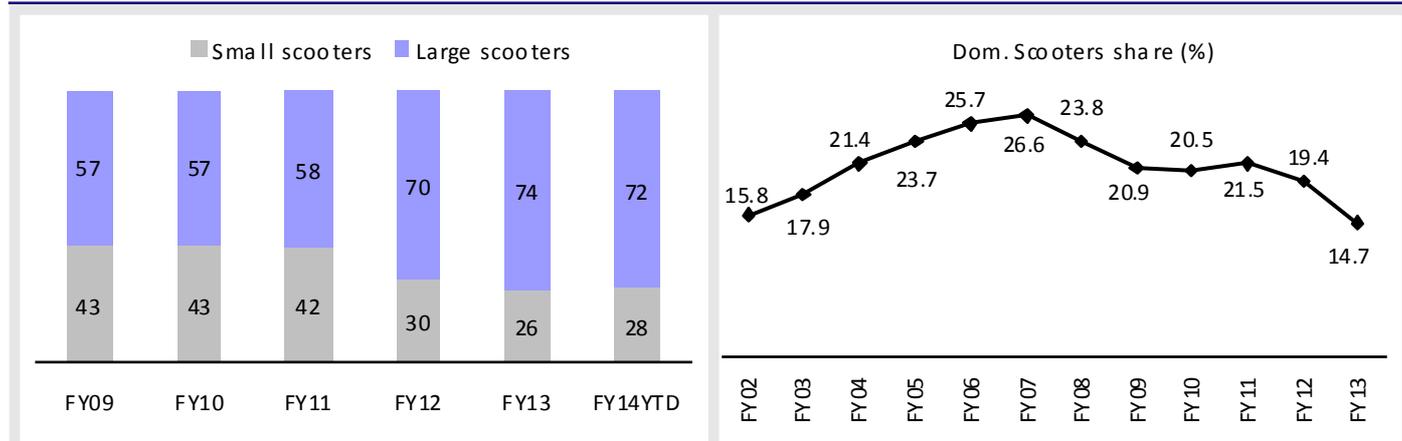
...Primarily due to absence in the executive motorcycle segment (constitutes over 60% of volumes)...



Source: Company, MOSL

...coupled with preference shift for bigger/family segment...

...impacted its share in scooters too



Source: Company, MOSL

TVSL' new model introductions over 10 years much lower than competition

Compared to major competition in the two-wheeler space, the frequency of new product launches has been relatively lower from TVSL. Moreover, as mentioned above, due to its constrained R&D bandwidth, company was not able to sustain the momentum of successful products like *Victor* due to absence of timely upgrade/refreshes.

TVSL' launches were few and far compared to competition (motorcycles)

"Victor was a good first attempt. It did well initially before we realised that durability of certain parts was not good enough," - Mr Vinay Harne, Senior Vice-President (R&D) in an interview with Business Today in April 2008.

	TVS Motor	Hero Moto	Bajaj Auto	HMSI
2013			Discover 125T, 100M, 100T, KTM 390	Dream Neo
2012	Phoenix	Passion XPro, Ignitor	Pulsar 200NS, Discover 125ST, KTM 200	Dream Yuga, CBR150R
2011		Impulse	Discover 125	CBR250R
2010	Jive, Max 4R			
2009			Pulsar 135, XCD 135, Discover 100	CB Twister
2008	Flame		Platina 125, Discover 135	CBF Stunner
2007	Star	Hunk	XCD 125, Pulsar 220, Pulsar 200	
2006	Apache		Platina	CB Shine
2005		CD Deluxe, Achiever, Super Splendor, Glamour	Discover 110, Avenger	
2004		Ambition	KT 100, Discover	CB Unicorn
2003	Centra	CD Dawn, Karizma	Wind 125	
2002		Dawn, Ambition		
2001		Passion, Joy	Eliminator, Pulsar, Caliber	
2000	Victor, Fiero			
No. of models	9	16	26	8
Continuing model	3	10	11	8
Continuing model (%)	33	63	42	100

Source: MOSL, Company

Unlike past, TVSL has strong product pipeline

Well seated for the scooter ride

- **Common platform strategy to support series of new launches; TVSL plans to reduce the platforms to two or three. This would improve the time to market, product quality and durability, coupled with better profitability.**
- **Plans to launch a product every quarter over the next 12-18 months. This will help to strengthen its current offerings and fill gaps in the portfolio.**
- **Given widespread distribution network and low base, successful product actions could drive disproportionate gains in market share and volumes .**
- **With the recent launch of Jupiter, TVSL has the complete range of scooters, with product across every sub-segment. Management expects scooter volumes to increase to 55,000-60,000 units in 4QFY14 v/s ~39,000 in 2QFY14.**

TVSL's upcoming Scooty upgrade will share the same 110cc engine as Wego and Jupiter. Similarly, the new Star City (all-new platform) and Victor motorcycle would share the same platform, stated a West-based TVSL Dealer

- **Common platform strategy to support series of new launches:** Historically, TVSL had multiple platforms across its two-wheeler portfolio. Now, it has adopted a common platform strategy and plans to reduce it to two to three common platforms straddling across segments. This would enable the company to quicken product introductions, timely upgrades/refreshes, coupled with associated benefits of margin improvement led by higher commonality of parts/consolidation of supplier base.
- **Plans to launch a product every quarter,** including two executive motorcycles, *Scooty Zest* (with 110cc engine) and diesel three-wheelers. Multiple product actions will strengthen its current offerings and fill gaps in product portfolio.

Robust product pipeline over the next 12-18 months (Indicative list)

Timeline	Product	Comments
2QFY14	Jupiter	Launch in non-South states
4QFY14	Jupiter	Launch in Southern states (60% of TVSL scooter market)
4QFY14	Scooty Zest	110cc engine as in Wego, Jupiter
4QFY14	Star City	Product upgrade (all-new platform)
1QFY15	Diesel 3W	Diesel segment constitute 65% of three-wheeler market
1QFY15	Victor	To share platform with Star City upgrade model
1HFY15	4-stroke Moped	To improve fuel efficiency significantly

Source: Company, Industry, MOSL

"TVS was slower in launching the product for the last three years, because we invested the time on quality. Going forward, every quarter we will introduce one new product," - Venu Srinivasan, CMD, TVSL

New launches to fill gaps in product portfolio

	BJAUT	HMCL	HMSI	TVS
Scooter	-	Pleasure, Maestro	Activa, Dio, Aviator	Scooty, Wego, Jupiter*
Motorcycle				
Economy	Platina	CD Deluxe	-	Star City, Star Sports
Executive	Discover (100cc, 125cc, 150cc)	Splendor, Passion, Glamour	Dream Neo, Dream Yuga, Shine	Phoenix, Victor**
Premium	Pulsar, KTM, Kawasaki	X-treme, Hunk, Karizma	Unicorn, Trigger, CBR150R, CBR250R	Apache
Moped	-	-	-	XL Super

*Recently launched, ** Upcoming launch

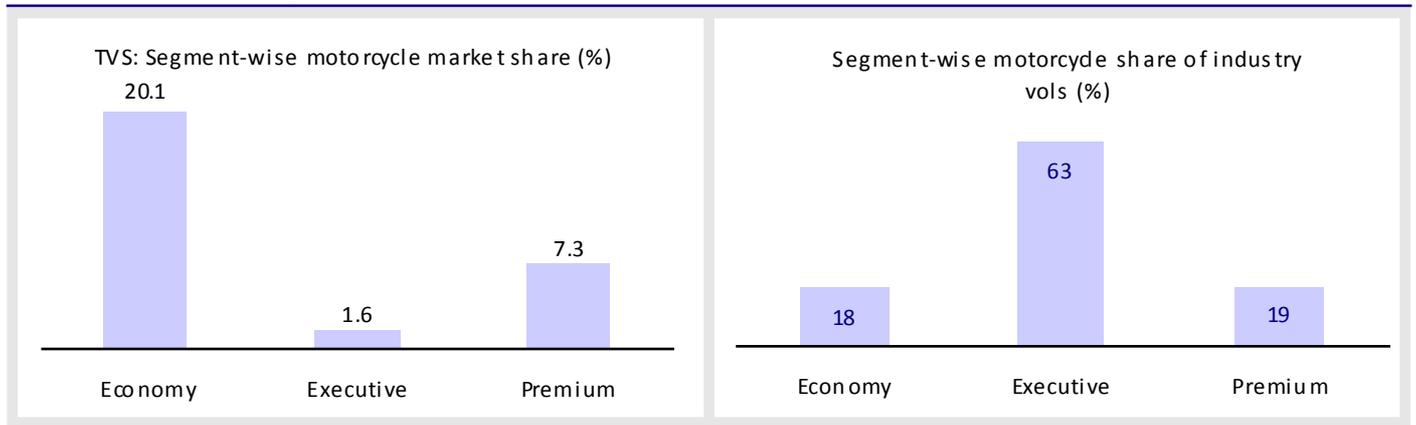
Source: Company, MOSL

Victor re-launch should strengthen TVSL's presence in executive segment i.e in ~45% of the domestic two-wheeler market

- **Given widespread distribution network and low base, success of new launches could drive meaningful volume rise:** TVSL has a wide reach with over 850 dealers, second best only to market leader Hero MotoCorp (~900 dealers) and much ahead of Bajaj (~650 dealers) and HMSI (~700 dealers). Success of new launches could give huge fillip to market share and volumes considering low base.
- **Recent launch of Jupiter scooter completes the scooter portfolio:** To strengthen its presence in the executive motorcycle segment, TVSL had launched *Phoenix* 125cc motorcycle in September 2012. With recent *Jupiter* (110cc scooter) launch, TVSL has a complete scooter portfolio. The scooter has been launched in non-South market and has received strong response with waiting of three months. Launch in South is expected in January 2014 (coinciding with *Pongal* festival). Management expects scooter volumes to increase to 55-60,000 units in 4QFY14 v/s ~39,000 in 2QFY14.

TVSL plans to launch two executive motorcycles; recent launch of *Phoenix* motorcycle has been received well

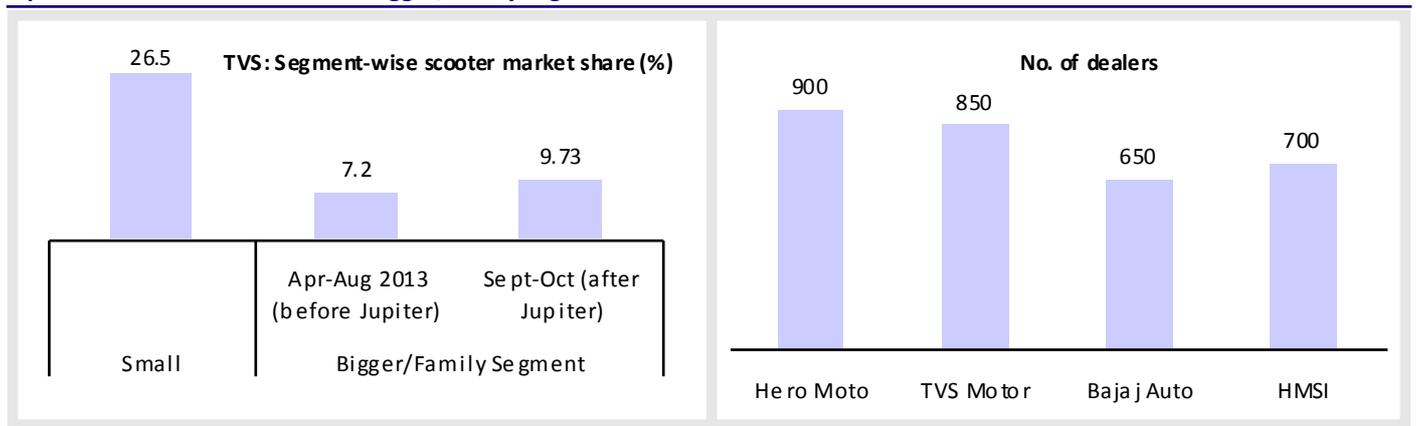
Executive segment is the largest in motorcycles with over 60% volume share



Source: Company, MOSL

Launch of new *Scooty Zest* (with 110cc engine) to strengthen presence in the small segment, while production ramp-up in *Jupiter* to boost market share in bigger/family segment

TVSL network second best only to market leader Hero Moto



Source: Company, MOSL

TVS Scooty aimed at female drivers (currently 70cc, 110cc engine variant launch in Jan-14)

TVS Wego positioned as unisex product (110cc engine)

TVS Jupiter targeted for male riders (110cc engine)



With the recent launch of Jupiter, TVSL has the complete range of scooters, with product across every sub-segment (women, unisex, men)

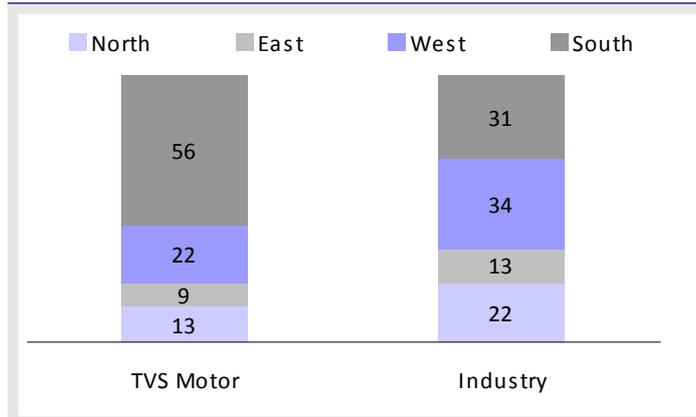
Source: Company, MOSL

Expected recovery in South to drive volumes

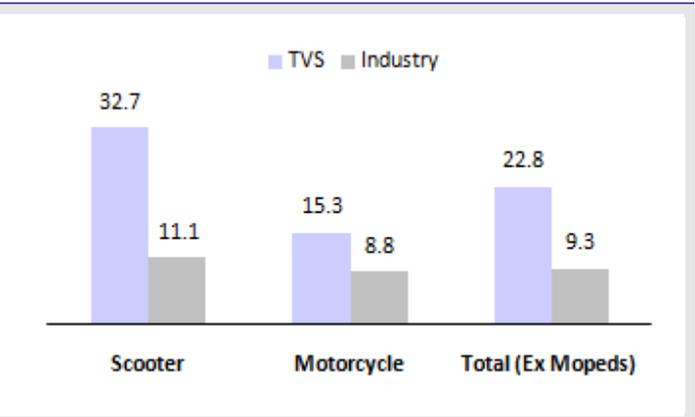
TVSL derived 56%/33% of its FY13 volumes from South/Tamil Nadu

- Consumer sentiments in southern region, particularly Tamil Nadu, have been weak over the last couple of years due to drought and major power shortage which impacted industrial activity and small-scale industries. This had impacted TVSL' volumes, particularly its mopeds.
 - Going forward, income levels and consequent sentiments (mainly in rural belts) are expected to improve with favorable monsoon, adequate water levels in reservoirs and improvement in power availability.
 - TVSL has a high exposure to the southern region with 56% of its FY13 volumes v/s industry exposure of 31%. Expected recovery in demand in southern region from 4QFY14 onwards would benefit TVSL given its high exposure
- **Southern region, particularly Tamil Nadu, has performed relatively weak:** Consumer sentiments in the southern region, particularly Tamil Nadu, have been weak over the last couple of years due to a drought and major power shortage which impacted industrial activity and small-scale industries. Given its high exposure to the southern region, TVSL's volumes, mainly moped sales, were impacted.

TVSL derived 56% of its FY13 volumes from south (%)

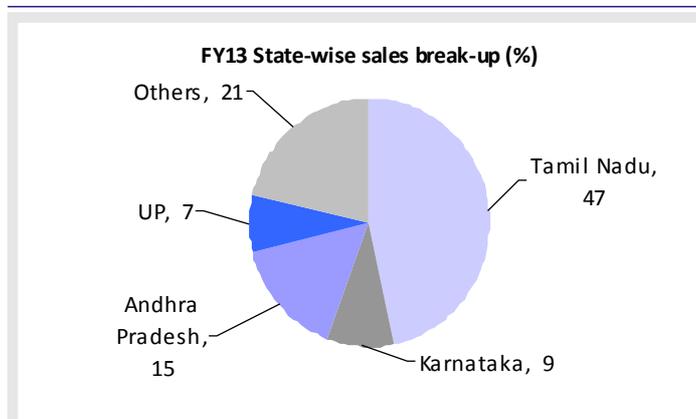


Among south, exposure to Tamil Nadu is the highest (%)

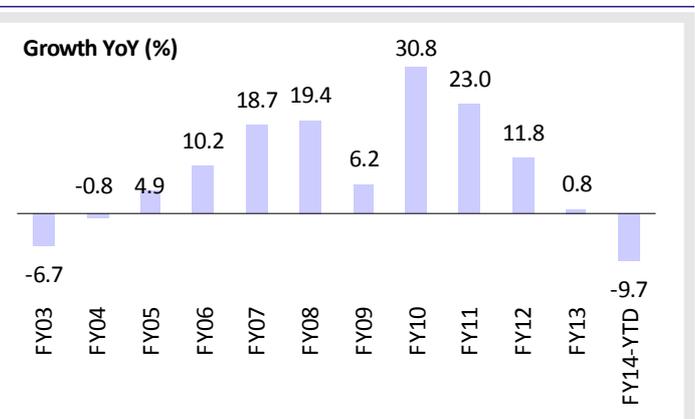


Source: Industry, MOSL

Tamil Nadu provide almost half of moped volumes...



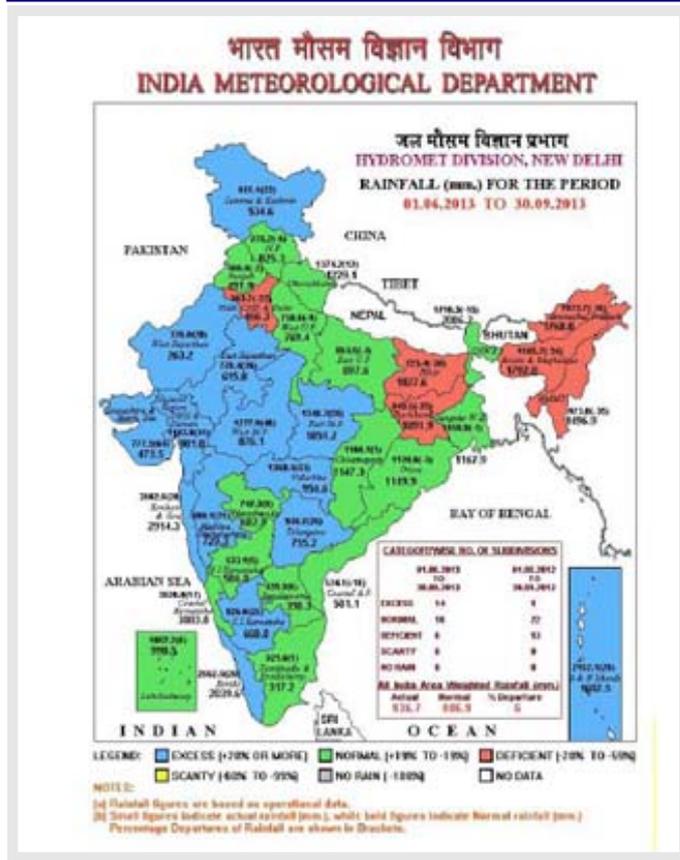
...weak sentiments in Tamil Nadu impacted moped sales



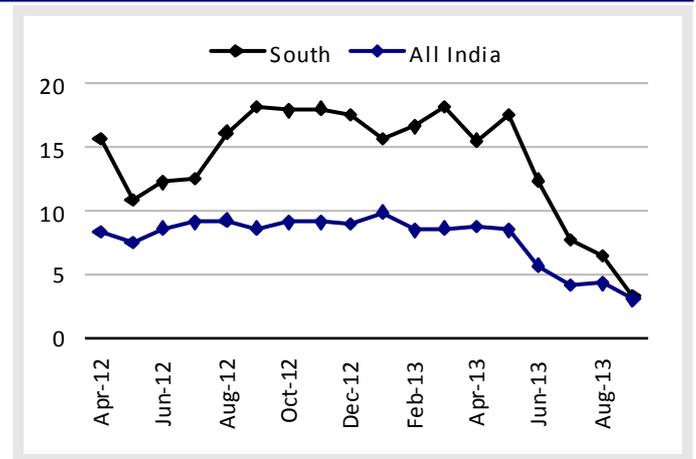
Source: Industry, Company, MOSL

- **Favorable monsoon and better power availability to drive recovery 4QFY14 onwards:** Going forward, income levels and consequent sentiments (mainly in rural belts) are expected to improve with favorable monsoon, adequate water levels in reservoirs and improvement in power availability.
- **Expected recovery in South to drive volumes, given high exposure:** TVSL has a high exposure to the southern region with 56% of its FY13 volumes v/s industry exposure of 31%. In the southern region, exposure to Tamil Nadu, particularly for scooters and mopeds at 33% and 47% respectively, is higher.

Favorable monsoon across regions

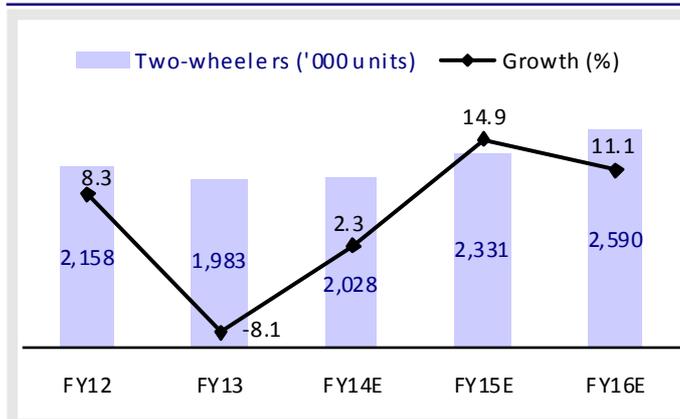


Power deficit trend improves in southern region (%)

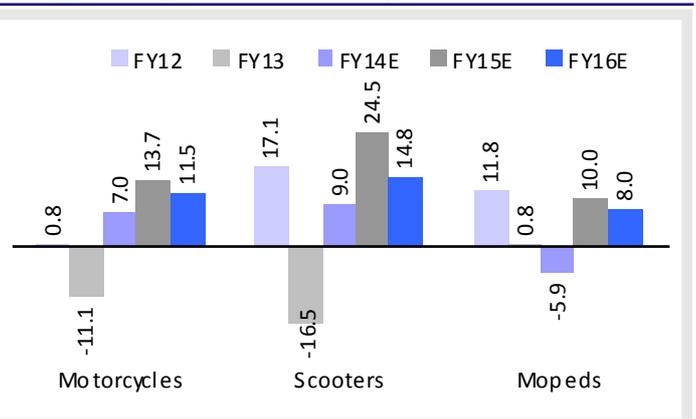


Source: Industry, India Meteorological department, CEA

Product actions and recovery in South to drive 13% CAGR in two-wheeler volumes over FY14E-15E



Expect scooters to grow at strong rate driven by ramp-up of Jupiter coupled with new Scooty Zest launch



Source: Company, MOSL

Immense export opportunity for three-wheelers

Launch of diesel variants and new permits to drive domestic recovery

- Our industry interactions indicate that the three-wheeler export opportunity is immense, with estimated annual market size of 0.9m units (Global market size of 1.5m units).
- TVSL' three-wheeler export volumes have increased by over 150% YTD FY14 driven primarily by strong performance of the African markets (~75% of its volumes).
- Launch of diesel variants coupled with new permits issuance to drive recovery in domestic three wheeler volumes.
- TVSL plans to increase capacity by 25% to 10,000 units per month to accommodate high export growth and diesel variants launch in domestic market.
- Expect three-wheeler volumes to register a CAGR of 18.5% over FY14E-16E (1HFY14 growth of 150%) driven by continued growth in exports and recovery in domestic volumes.
- Three-wheeler is a high margin business. Bajaj Auto is estimated to have over 30% EBITDA in three-wheelers. Even a smaller player like Atul Auto enjoys double digit margin (FY13 EBITDA margin of 11.6%) and over 30% return ratios.

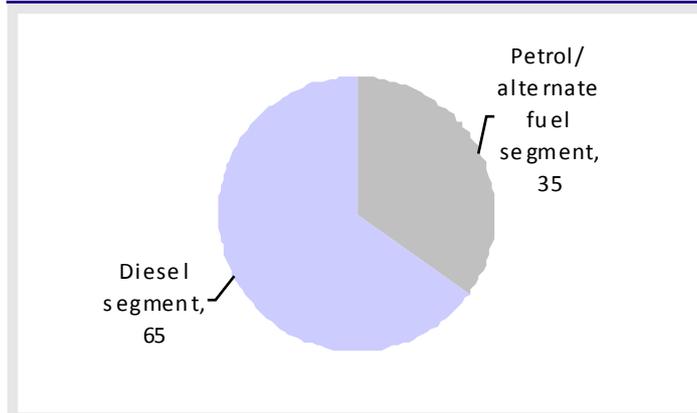
Three-wheeler export opportunity is immense to developing/under-developed economies: Our industry interactions indicate that the three-wheeler export opportunity is immense, with estimated annual market size of 0.9m units. Export markets for three-wheelers primarily include developing and under-developed countries like Bangladesh, Sri Lanka, African countries and Latin American countries.

Export markets for three-wheelers primarily include developing and under-developed countries like Africa

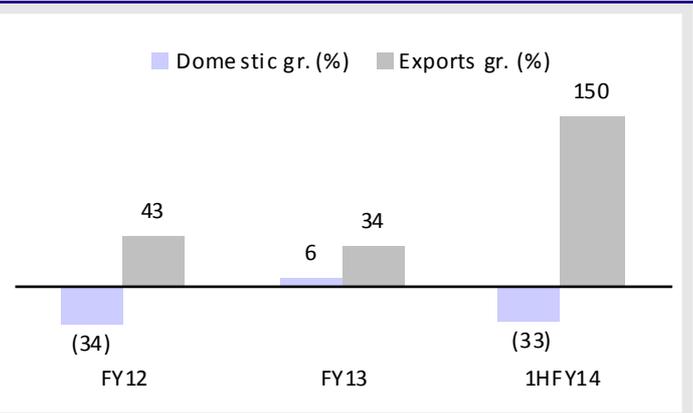
Demand from Africa drives robust growth in exports: TVSL' three-wheeler export volumes have increased by over 150% YTD FY14, driven primarily by African markets (~75% of its volumes). Increase in export volumes has been primarily through a combination of entry into new markets, offering competitive pricing together with a better product.

Launch of diesel three-wheeler to drive recovery in domestic volumes: Diesel three-wheeler segment constitutes a bigger chunk in the domestic three-wheeler market, with 65% share. Of this, ~15% of the market consists of smaller diesel three-wheelers. TVSL plans to enter this segment in 4QFY14/1QFY15. Company has already started selling diesel three-wheelers in Kerala on a trial basis. Our industry interactions indicate that TVSL plans to double sales in the domestic market, with the availability of diesel variants.

Diesel segment constitutes 65% of the 3-wheeler market



Strong export growth, diesel variant to drive domestic recovery



Source: MOSL

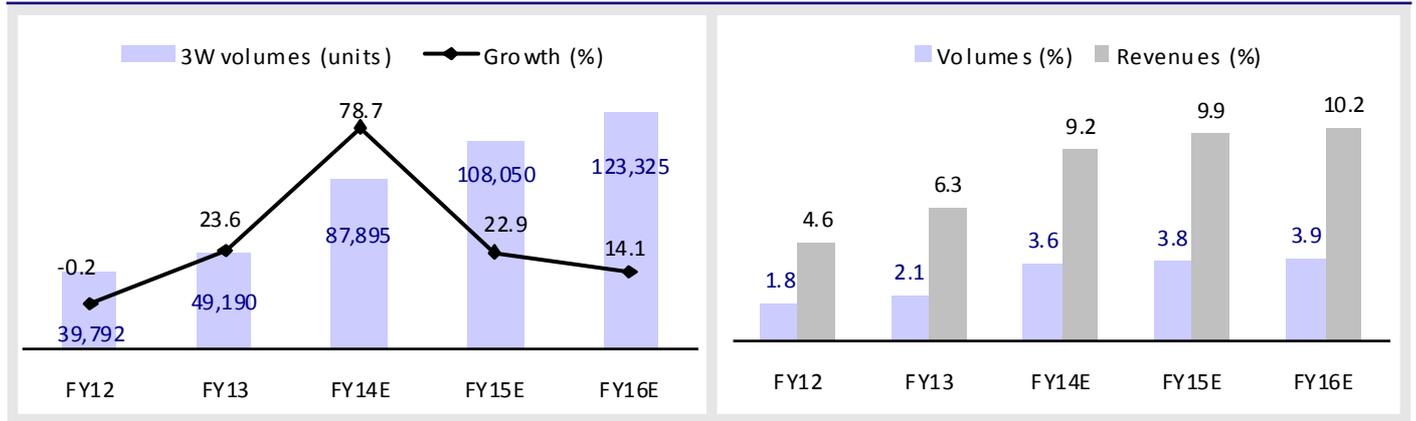
Diesel three-wheeler segment constitutes a bigger chunk in the domestic three-wheeler market, with 65% share

Capacity expansion to 10,000 units: Company is constrained by capacity, which currently stands at 8,000 units per month. It plans to increase capacity to 10,000 units a month. This would accommodate higher demand from exports coupled with ramp-up in domestic volumes, driven by launch of diesel variants.

Three-wheeler is a high margin business: Bajaj Auto (which is also largely into petrol/alternate fuel segment) is estimated to achieve over 30% EBITDA on its three-wheeler sales. A relatively smaller player like Atul Auto (FY13 annual sales of 32,000 units) also enjoys double digit margin (FY13 EBITDA margin of 11.6%) and over 30% return ratios.

Expect 3Ws to register a CAGR of 18.5% over FY14E-15E

Share of high margin 3Ws to increase



Source: MOSL

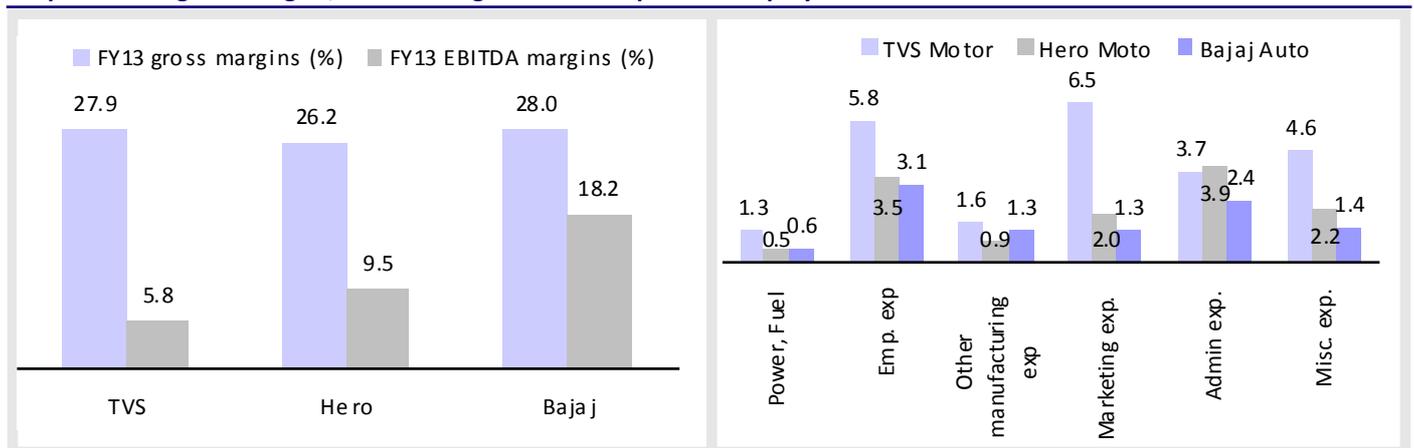
Operating leverage and better mix to drive margins

Upside risk exist with enhanced competitive position and better pricing power

- Weak brand acceptance (due to product failure earlier) and consequent low volumes resulted in significantly higher marketing spends and lower margins compared to peers.
- Operating leverage benefits coupled with better gross margins on improved mix (higher three-wheeler share) to drive margin improvement from 5.8% in FY13 to 6.7% in FY16E.
- EBITDA CAGR of 24.8% (FY14E-16E) on revenue CAGR of 16.7% led by margin increase.
- Success of new launches could drive considerable improvement in brand acceptance, competitive positioning and volumes due to wide distribution network and low base.
- Any improvement in competitive positioning and consequent narrowing of pricing gap versus peers provides significant upside risk to our margins (currently not factored in).

Weak brand acceptance and consequent low volumes resulting in significantly higher marketing spends: Over the years, due to lack of successful product introductions, TVSL brands (mainly in urban markets) have been hugely impacted. This resulted in heavy marketing spends to drive volumes and thus is a constant strain on profitability.

...high marketing spends the key reason, coupled with high employee cost and low volumes
 Despite similar gross margins, EBITDA margin lower than peers...



Source: Company, MOSL

TVSL' recently-launched product *Jupiter* (110cc scooter) has been priced at ~10% to market leader *Honda Activa* despite offering higher features.

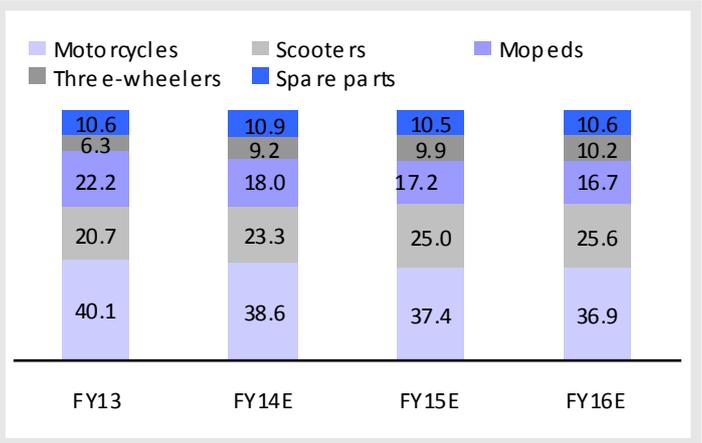
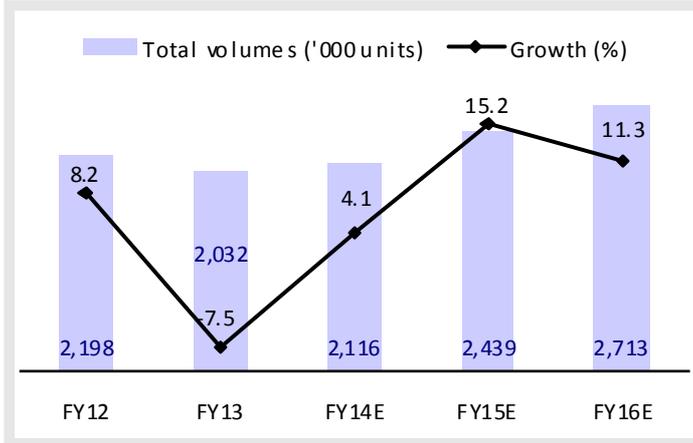
Success of certain model introductions could drive a turnaround: The success of certain model introductions could drive significant improvement in brand acceptance, competitive positioning and consequent volumes due to TVSL' low volume base and wide distribution network.

Operating leverage and better mix to drive margins: Higher volumes coupled with better gross margins on improved mix (higher three-wheeler share) to drive margin rise from 5.8% in FY13 to 6.7% in FY16.

Any improvement in competitive positioning provides upside risk to margins: TVSL has been generally aggressive in pricing the products due to its weak brand equity. For example, the recently-launched product *Jupiter* (110cc scooter) has been priced at ~10% to market leader *Honda Activa*, despite offering higher features. Improvement in competitive positioning could lead to narrowing of pricing gap versus peers and key driver for margin improvement (current not factored in our estimates).

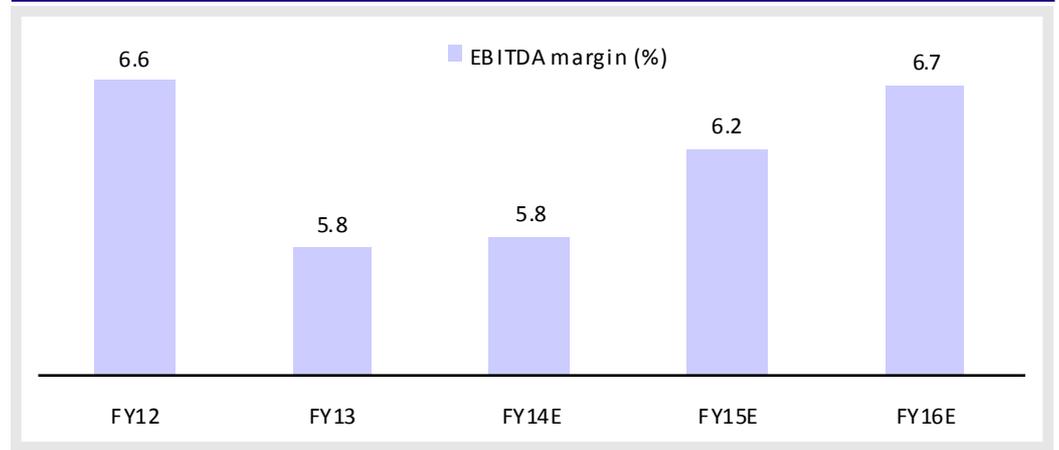
Total volumes to register CAGR of 13.2%

Product mix to improve with higher 3W, lower mopeds



Source: Company, MOSL

Higher volumes and better mix to drive EBITDA margin increase from 5.8% to 6.7% in FY16E



Source: Company, MOSL

EBITDA losses reduce in Indonesia operations

Further clarity (on closure of operations) could also act as a re-rating trigger

- Indonesia is the third largest two-wheeler market globally. Considering the size and growth opportunity, TVSL entered Indonesia in FY07.
- Unlike India, Indonesian market is largely dominated by step-thrus. Moreover, competitive intensity is high, with over 90% share held by Honda and Yamaha combined.
- Given dominance of Japanese majors coupled with significant market shift towards Skubek segment in a few years time, TVSL continues to make cash losses.
- Entry into Skubek segment in FY14 (constituting 61% of market) is expected to improve performance. Management expects cash break-even by FY15-end.
- However, we conservatively estimate annual cash losses and incremental investments of INR500m over FY14E-15E.

Indonesia is the third-largest two-wheeler market globally, after China and India

TVSL entered Indonesia in FY07 eyeing size, growth opportunity

Indonesia is the third-largest two-wheeler market globally, after China and India. Considering the size and healthy growth potential, company entered Indonesia in FY07 through its wholly-owned subsidiary PT TVS Motor Company Indonesia, with a manufacturing facility and an annual capacity of 300,000 units.

Investments in Indonesia are held indirectly through TVS Motor Company (Europe) B.V. and TVS Motor (Singapore) Pte Ltd.

Indonesian market dominated by step-thrus; over 90% of market share held by Honda and Yamaha

Unlike the Indian market where motorcycle sales form a sizeable part, the Indonesian market is largely dominated by step-thrus

Unlike the Indian market where motorcycle sales form a sizeable part, the Indonesian market is largely dominated by step-thrus. Moreover, the Indonesian market is dominated by Japanese players, Honda and Yamaha, holding over 90% of the market share.

TVSL' losses continue due to Japanese majors, preference for Skubeks

Company's addressable market declined sharply (to 27% from over 90% in FY04) as demand shifted to automatic transmission step-thrus called Skubeks, which provided convenience and comfort comparable to the mileage and performance of geared step-thrus called Bebeks. Until recently, TVSL was present only in the Bebek segment. Skubek as a category increased to 61% in FY13 from almost nil in FY04.

Moreover, given the dominance of Japanese majors along with the significant market shift for Skubeks in a few years time, TVSL continues to make losses in the Indonesian operations, thereby requiring continuous investments to fund the cash losses.

Financials: Indonesia operations (INR m)

	FY10	FY11	FY12	FY13
Sales volumes (units)	15,000	19,800	23,000	19,000
Growth (%)		32.0	16.2	-17.4
Revenues	683	854	1,074	1,000
EBITDA	-642	-584	-490	-375
EBITDA Margin (%)	-94.0	-68.4	-45.6	-37.5
PAT	-1,017	-623	-1,124	-245
Cumm. Investments	2,928	3,524	4,742	4,742
% of S/A Net Worth	33.8	35.3	40.5	38.7

FY13 PAT post USD16.7m gain on sale of surplus land

Source: Company, MOSL

FY13 performance was boosted by a surplus land sale for USD23.4m, which led to a one-time profit of USD16.9m

Management guided cash break-even by FY15-end; cash losses reduce

- Average realizations in the Indonesian market are high at USD1,000/unit (compared to USD700/unit in India).
- Considering the high realizations and consequent high gross margins, as per management, the Indonesian operations would break even with monthly sales of 5,000 units (v/s current monthly sales of ~2,000 units).
- TVSL introduced a new Skubek *TVS Dazz* (automatic transmission step-thru) in FY14. Hence, it expects monthly volumes and financial performance to improve.
- Also, it plans to ramp up the dealer network to 150 by FY14-end (from 100 in FY13) and tie up with multi-finance companies to leverage retail finance and increase sales during FY14.
- TVSL plans to use the Indonesian base to export to Asean countries.

Indonesian operations' EBITDA losses reduce

- EBITDA losses in the Indonesian operations have been on a reducing trend, with cost control measures.
- For FY13, TVSL Indonesia delivered a better performance with EBITDA loss reducing to INR375m v/s INR490m in FY12, despite volumes declining by ~17%.
- However, profits were boosted by a surplus land sale for USD23.4m, which led to a profit of USD16.9m.

Factor cash losses, investment of INR500m annually over FY14E-16E

- Due to the dominance of Japanese majors and weak historical performance, we factor annual cash losses and investments of INR500m over FY14E-16E.
- Any further clarity (success of recent launch or closure of operations) could also act as a re-rating trigger.

BMW Motorrad tie-up: Largely a contract manufacturing opportunity

In April 2013, TVS Motor and BMW Motorrad signed a long-term technology co-operation agreement to develop and produce a new series of sub 500cc motorcycles to be sold through their own distribution network and under their own brand.

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Broad contours of the deal:

- Jointly develop sub 500cc premium motorcycles. Each vehicle would have two derivatives for both OEMs, one for TVSL and other for BMW.
- BMW's variant is expected to have premium technology and features, while TVSL's counterpart is expected to cater to the affordable segment positioned above the current offering, *Apache*.
- Individual products would be sold through their own distribution channels in India and across the globe and under their respective brand.
- Manufacturing would be done entirely by TVSL.
- The first product would hit the market in 2015-end.
- TVSL would invest EUR20m over CY13-15. BMW would also invest an undisclosed sum for joint development.

Rationale for the tie-up

For TVS Motor	For BMW Motorrad
Outsourcing/contract manufacturing opportunity giving additional revenue stream	Gain from TVSL's cost effective manufacturing operations to expand operations in fast growing Asian and South American markets. Global market size for 250-750cc is 800,000 units.
Access to superior high-end technology	Access to Indian market - world's second largest and growing market
BMW association could improve its market position and greater brand acceptance in urban markets	Shared investments

Source: Company, MOSL

Similarity in TVS-BMW collaboration vis-a-vis Bajaj-KTM association

Product	Intention to jointly product 250-500cc motorcycles for Indian and global markets
Technology	Both foreign partners brings in the technology and aspirations to the alliance
Cost arbitrage	Cost effective operations of the Indian partner

Source: MOSL

Difference in TVS-BMW collaboration and Bajaj-KTM association

	Bajaj-KTM	TVS-BMW
Brand gap	Narrow gap between Bajaj-KTM brand i.e. Bajaj highest offering is 200cc motorcycle, while KTM's lowest offering starts from 50cc to to over 1000cc	Wider gap between TVS-BMW brand i.e. TVSL biggest offering is of 180cc, while BMW's lowest offering is of 650cc
Current volumes	Bajaj sells almost a million annual premium motorcycle	TVSL relatively small player with annual premium motorcycles sale of 180k units
Ownership interest	Bajaj has 48% equity stake in KTM	Only a tie-up with no equity interest

Source: MOSL

Our view

- Similar to Bajaj-KTM alliance, we believe this tie-up would give TVSL an additional revenue stream in the form of contract manufacturing for BMW Motorrad.
- However, unlike the Bajaj-KTM alliance, we are apprehensive if the tie-up involves joint product development. In its absence, TVSL may not be able to gain significantly from the pact.
- Due to inadequate details, we have not factored the P&L implications, though have covered the investment requirements on a conservative basis.

Non-core investments remains a concern

TVSL recently divested majority stake in its non-core energy venture

Key subsidiaries' performance

(INR m)	FY12	FY13
Sundaram Auto	51	136
TVS Energy	-69	42
TVS Wind Energy	-9	29
TVS Wind Power	-2	9
TVS Europe	24	-892
TVS Singapore	0	-1
TVS Indonesia	-1,124	-245
Sundaram Business Dev.	0	-5
Total Losses	-1,128	-926

Source: Company, MOSL

- Investments in non-core businesses constitute 37% of FY13 standalone net worth and have been a cause of concern. TVSL made these investments to leverage the TVS brand name in other business opportunities.
- TVS divested its majority stake in its energy venture in 2QFY14. Also, company has guided for no major incremental investments in its housing business.
- TVSL though plans to scale up its captive financing arm to support the two-wheeler business and hence guided for further equity investment in this business.
- We have factored further annual investments of INR500m largely in its captive financing arm over FY14E-16E.

Investments into various business constitute 62% of standalone network (INR m)

Unquoted Investments	Holding (%)	Relationship	FY12	FY13	FY14E	FY15E	FY16E
Indonesian operations							
TVS Europe	100	Subsidiary	1,265	1,265	1,265	1,265	1,265
Less: Write down				(916)	(916)	(916)	(916)
TVS Singapore	100	Subsidiary	2,012	2,012	2,012	2,012	2,012
TVS Indonesia (Pref. shares)	100	Subsidiary	1,465	1,465	1,965	2,465	2,965
Total (net of write down)			4,742	3,826	4,326	4,826	5,326
Low cost housing business							
TVS Housing	100	Subsidiary	1	1	1	1	1
Emerald Haven Realty	48.8	Associate	400	400	400	400	400
Total			401	401	401	401	401
Vehicle Finance arm (engaged in two-wheelers financing, also present in used cars and tractor financing)							
TVS Motor Services	19	Subsidiary	4	4	4	4	4
TVS Motor Services (Pref. shares)		Subsidiary	2,460	2,710	3,210	3,710	4,210
Total			2,464	2,714	3,214	3,714	4,214
Auto Component (business of supplying Interior and exterior plastic parts and rubber products for automobiles)							
Sundaram Auto	100	Subsidiary	609	609	609	609	609
TVS Energy			768	768	33	33	33
Others			32	32	32	32	32
Total investments			9,015	8,349	8,614	9,614	10,614
Incremental investments					265	1,000	1,000
S/A Net Worth			11,696	12,247	14,172	16,615	19,479
% of S/A Net Worth			77	68	61	58	54
% of S/A Net Worth			37	37	30	29	27
(Ex-Indonesia, Ex-Energy venture)							

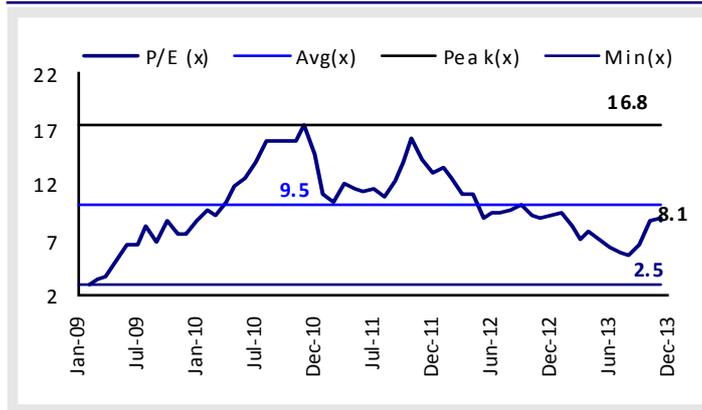
Source: Company, MOSL

Initiate at Buy with a target price of INR85

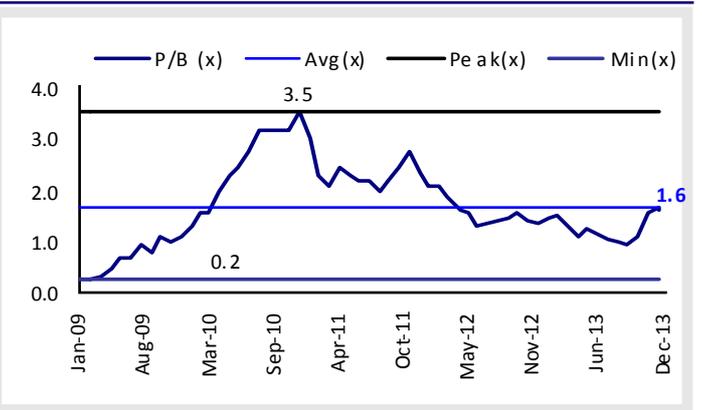
Risk-reward favorable; expect earnings CAGR of 33% over FY14E-16E

- TVSL is well positioned to benefit from the scooterization wave with its complete scooter portfolio. Over the next 12-18 months, TVSL plans to launch multiple products across segments to reinforce and fill gaps in product portfolio.
- Operating leverage and better mix to drive margins from 5.8% in FY14E to 6.7% in FY16E.
- EBITDA losses in Indonesian operations continue to reduce. Any further clarity (success of recent launch or closure of operations) could also act as a re-rating trigger
- Expect earnings CAGR of 33% over FY14E-16E with return ratios (RoE) improving from 19.2% in FY14E to 24.6% in FY16E.
- Healthy cash from operations (FCF CAGR of 24.8% over FY14E-16E) coupled with sale of non-core investments would transform into net cash by FY16E from net debt of INR6.2b in FY13.
- Initiate coverage with a Buy rating and target price of INR85. We value TVSL at 9x FY16E standalone EPS.
- Key risks: 1) Failure of new launches, 2) higher than estimated cash losses in Indonesian operations, 3) Higher than expected investments in outside standalone business.

TVS Motor PE band

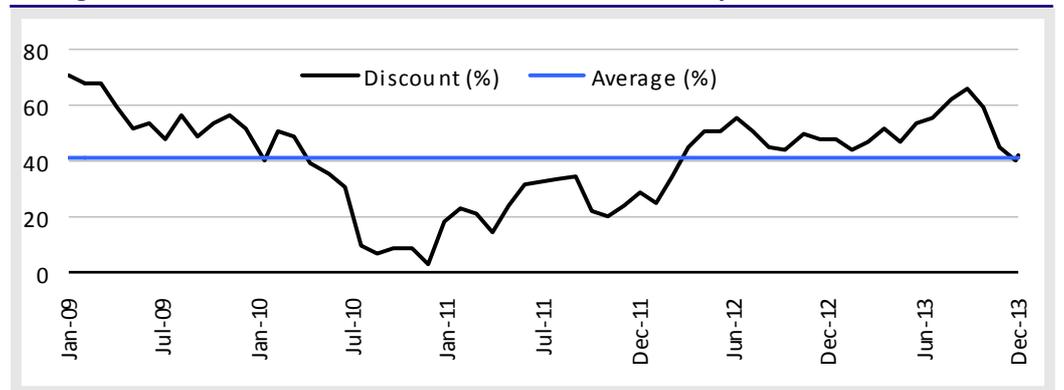


TVS Motor PB band



Source: Bloomberg, MOSL

Average discount to Hero Moto has been 33% over the last five years



Source: Bloomberg, MOSL

Key assumptions

	FY13	FY14E	FY15E	FY16E
Total volumes (units)	2,032,240	2,116,156	2,438,707	2,713,269
Growth (%)	-7.5	4.1	15.2	11.3
Motorcycle (units)	749,429	801,800	911,661	1,016,481
Growth (%)	-11.1	7.0	13.7	11.5
Scooter (units)	441,552	481,312	599,066	687,817
Growth (%)	-16.5	9.0	24.5	14.8
Moped (units)	792,069	745,151	819,930	885,646
Growth (%)	0.8	-5.9	10.0	8.0
Three-wheelers (units)	49,190	87,895	108,050	123,325
Growth (%)	23.6	78.7	22.9	14.1
Domestic (units)	1,787,007	1,807,116	2,086,736	2,321,364
Growth (%)	-6.5	1.1	15.5	11.2
Export (units)	245,233	309,063	351,994	391,925
Growth (%)	-14.8	26.0	13.9	11.3
Net realization (INR/unit)	33,749	36,531	37,564	38,629
Growth (%)	5.9	8.2	2.8	2.8
Net Sales (INR m)	70,650	78,524	93,289	106,858
Growth (%)	-1.1	11.1	18.8	14.5

Source: Company, MOSL

Financials and Valuation

Standalone - Income Statement					(INR Billion)
Y/E March	2012	2013	2014E	2015E	2016E
Net Sales	71,415	70,650	78,524	93,289	106,858
Total Expenditure	66,722	66,560	73,930	87,412	99,731
% of Sales	93.4	94.2	94.2	93.7	93.3
EBITDA	4,694	4,090	4,594	5,877	7,127
Margin (%)	6.6	5.8	5.8	6.3	6.7
Depreciation	1,175	1,304	1,291	1,388	1,470
EBIT	3,518	2,786	3,302	4,490	5,657
Int. and Finance Charges	571	480	198	48	17
Other Income - Rec.	217	246	271	298	328
PBT bef. EO Exp.	3,165	2,552	3,375	4,740	5,968
EO Expense/(Income)	0	916	-303	0	0
PBT after EO Exp.	3,165	1,636	3,678	4,740	5,968
Current Tax	655	520	809	1,043	1,313
Deferred Tax	19	-44	110	142	179
Tax Rate (%)	21.3	29.1	25.0	25.0	25.0
Reported PAT	2,491	1,160	2,759	3,555	4,476
PAT Adj for EO items	2,491	1,810	2,532	3,555	4,476
Change (%)	26.3	-27.3	39.9	40.4	25.9

Standalone - Balance Sheet					(INR Million)
Y/E March	2012	2013	2014E	2015E	2016E
Equity Share Capital	475	475	475	475	475
Total Reserves	11,221	11,772	13,696	16,140	19,226
Net Worth	11,696	12,247	14,172	16,615	19,701
Deferred Liabilities	976	931	931	931	931
Total Loans	8,311	6,345	4,345	4,320	3,820
Capital Employed	20,982	19,523	19,448	21,866	24,452
Gross Block	21,545	22,479	24,479	25,979	27,479
Less: Accum. Deprn.	11,289	12,365	13,656	15,043	16,514
Net Fixed Assets	10,256	10,115	10,823	10,936	10,966
Capital WIP	525	361	314	373	427
Total Investments	9,309	8,688	8,953	9,953	10,953
Curr. Assets, Loans&Adv.	11,055	12,029	12,768	16,673	20,663
Inventory	5,846	5,097	5,357	6,183	7,082
Account Receivables	2,080	3,005	3,012	3,323	4,099
Cash and Bank Balance	130	175	459	3,031	5,138
Loans and Advances	2,998	3,752	3,940	4,137	4,344
Curr. Liability & Prov.	10,163	11,670	13,412	16,070	18,558
Account Payables	9,585	11,136	12,207	14,503	16,612
Provisions	577	534	1,204	1,567	1,945
Net Current Assets	892	359	-643	604	2,105
Appl. of Funds	20,982	19,523	19,448	21,866	24,452

E: MOSL Estimates

Financials and Valuation

Ratios

Y/E March	2012	2013	2014E	2015E	2016E
Basic (INR)					
EPS	5.2	3.8	5.3	7.5	9.4
Cash EPS	7.7	6.6	8.0	10.4	12.5
BV/Share	24.6	25.8	29.8	35.0	41.5
DPS	1.3	1.2	1.5	2.0	2.5
Payout (%)	28.8	56.5	30.2	31.3	31.0
Valuation (x) *					
P/E	10.3	14.1	10.1	7.2	5.7
Cash P/E	7.0	8.2	6.7	5.2	4.3
P/BV	2.2	2.1	1.8	1.5	1.3
EV/Sales	0.5	0.4	0.4	0.3	0.2
EV/EBITDA	7.2	7.8	6.4	4.6	3.4
Dividend Yield (%)	2.4	2.2	2.8	3.7	4.7
Return Ratios (%)					
RoE	23.0	15.1	19.2	23.1	24.6
RoCE	19.8	15.7	19.3	24.3	26.9
Working Capital Ratios					
Asset Turnover (x)	3.4	3.6	4.0	4.3	4.4
Inventory (Days)	29.9	26.3	24.9	24.2	24.2
Debtor (Days)	10	14	13	12	13
Leverage Ratio (x)					
Current Ratio	1.1	1.0	1.0	1.0	1.1
Debt/Equity	0.7	0.5	0.3	0.3	0.2

* Adjusted for treasury stocks

Standalone - Cash Flow Statement

(INR Million)

Y/E March	2012	2013	2014E	2015E	2016E
NP/(Loss) bef. Tax & EO Items	3,165	1,628	3,375	4,740	5,968
Depreciation	942	1,076	1,291	1,388	1,470
Interest & Finance Charges	408	327	198	48	17
Direct Taxes Paid	700	527	920	1,185	1,492
(Inc)/Dec in WC	626	800	1,287	1,325	606
CF from Operations	4,440	3,303	5,232	6,315	6,569
Others	-31	878	-271	-298	-328
CF from Operating incl EO	4,409	4,181	4,961	6,017	6,241
(inc)/dec in FA	-1,768	-767	-1,953	-1,559	-1,554
(Pur)/Sale of Investments	-2,699	-295	-265	-1,000	-1,000
Others	658	77	271	298	328
CF from Investments	-3,809	-985	-1,947	-2,261	-2,226
(Inc)/Dec in Debt	-778	-276	-2,000	-25	-500
Interest Paid	-571	-517	-198	-48	-17
Dividend Paid	-659	-715	-834	-1,112	-1,390
Others	2,269	564	303	0	0
CF from Fin. Activity	261	-945	-2,729	-1,184	-1,907
Inc/Dec of Cash	861	2,251	285	2,572	2,107
Add: Beginning Balance	-731	-2,077	175	459	3,031
Closing Balance	130	175	459	3,031	5,138

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