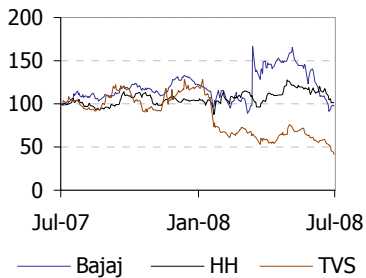


AutoMonitor

Sahil Kedia

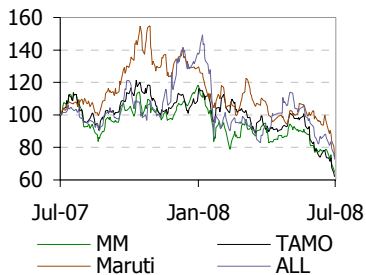
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Relative Performance



Source: Bloomberg, ENAM Research

Relative Performance



Source: Bloomberg, ENAM Research

INTEREST RATE WOES CONTINUE

Volumes in June registered moderate growth across most products. With another hike in interest rates in June, we believe that volume growth will take a hit in the coming months.

- **Two wheelers:** Domestic demand for two-wheelers registered a healthy growth of 9%.
- **Commercial vehicles:** Domestic demand for M&HCVs and LCVs for TAMO remained healthy with YoY growth of 9% and 44%.
- **Cars:** Growth continued to be healthy for new products.

Outlook for Q1FY09E:

- **Revenues:** We expect revenue growth for our auto universe to be in-line with volume growth owing to limited pricing power.
- **Margins:** We expect margins to be under pressure on account of higher input costs and increased advertising expenditure.

Q1FY09E: Result Estimates

(Rs mn)	Sales est.			EBITDA est.			Adj PAT est.		
	Q1FY09	QoQ (%)	YoY (%)	Q1FY09	QoQ (%)	YoY (%)	Q1FY09	QoQ (%)	YoY (%)
HH	29,063	4	19	3,728	(9)	41	2,795	(6)	47
TVS	8,114	10	4	240	32	25	51	(21)	(33)
TAMO	64,816	(26)	7	5,493	(30)	4	2,170	(60)	(54)
MSIL	45,467	(6)	16	6,279	8	9	5,188	74	4
M&M	33,129	5	27	3,479	2	26	2,219	0	16

Source: ENAM Securities

Other Highlights:

- **Interest rate hike:** RBI has hiked Repo and CRR rate by 50bps each in June. As a result most banks have increased auto loans by ~50-100bps.
- **Special excise duty:** In a bid to discourage buyers due to rising fuel costs, the government has imposed a special excise duty of Rs 15,000 to 20,000 on luxury cars and SUVs

Considering current valuations, our order of preference is as follows (most preferred to least): MSIL, M&M, BAJAJ, HH, ALL, TAMO, TVS.

Volume Snapshot

(Nos)	Monthly			YTD			Y/E	
	June-08	June-07	YoY (%)	3MFY09	3MFY08	YoY (%)	FY09E	FY08
Bajaj Auto	196,741	187,624	4.9	620,095	571,113	8.6	2,579,904	2,458,257
TVS Motor	109,082	107,117	1.8	331,789	320,161	3.6	1,477,664	1,287,973
Hero Honda	295,675	255,200	15.9	894,244	802,853	11.4	3,526,780	3,337,142
Total	601,498	549,941	9.4	1,846,128	1,694,127	9.0	7,584,348	7,083,372
Tata Motors	47,245	44,317	6.6	131,733	127,361	3.4	612,651	582,401
Maruti Suzuki	61,247	59,917	2.2	192,584	169,669	13.5	856,318	764,848
Mahindra & Mahindra	31,379	27,905	12.4	90,160	75,855	18.9	347,780	324,663

Source: Company; ENAM Research

MARUTI SUZUKI (MSIL)

- MSIL posted a subdued volume growth of 2% in June. Its A3 offerings continued to post a healthy volume growth of 48%.
- MSIL undertook its half yearly plant maintenance shutdown in the last week of June.

Maruti: Volume break-up

(Nos)	Monthly			YTD			Y/E	
	June-08	June-07	YoY (%)	3MFY09	3MFY08	YoY (%)	FY09E	FY08
A1	5,361	6,214	(13.7)	16,649	17,994	(7.5)	66,000	69,553
C	6,964	8,017	(13.1)	20,761	20,631	0.6	91,200	89,729
A2	37,767	37,646	0.3	125,427	110,413	13.6	550,200	499,280
A3	5,807	3,923	48.0	15,940	11,056	44.2	60,000	49,335
Tot PC	55,899	55,800	0.2	178,777	160,094	11.7	767,400	707,897
MUV	512	200	156.0	1,316	510	158.0	4,080	3,927
Domestic	56,411	56,000	0.7	180,093	160,604	12.1	771,480	711,824
Exports	4,836	3,917	23.5	12,491	9,065	37.8	84,838	53,024
Total Sales	61,247	59,917	2.2	192,584	169,669	13.5	856,318	764,848

Source: Company, ENAM Research

MAHINDRA AND MAHINDRA (M&M)

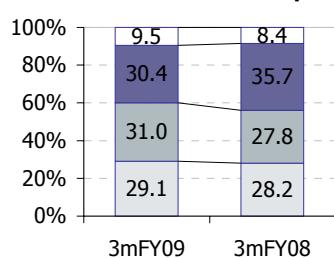
- UVs registered growth of 7% in June, while tractors clocked a healthy 19% increase YoY. Volumes for the Logan have subsided on account of increased competitive pressures in the A3 segment.

M&M: Volume break-up

(Nos)	Monthly			YTD			Y/E	
	June-08	June-07	YoY (%)	3MFY09	3MFY08	YoY (%)	FY09E	FY08
UV	11,311	10,597	6.7	37,919	31,171	21.6	152,400	147,132
LCV*	1,172	1,033	13.5	2,957	2,681	10.3	11,000	10,402
Logan*	1,351	2,389	(43.4)	4,595	4,940	(7.0)	32,000	25,666
Total 4-Wheelers	13,834	14,019	(1.3)	45,471	38,792	17.2	195,400	183,200
3-Wheelers	4,345	2,795	55.5	11,396	7,336	55.3	38,400	34,800
Exports#	1,192	1,002	19.0	3,187	2,436	30.8	11,500	8,023
Total	19,371	17,816	8.7	60,054	48,564	23.7	245,300	226,023
Tractors (Domestic)	11,054	9,525	16.1	28,004	25,232	11.0	-	-
Tractors (Exports)	954	564	69.1	2,102	2,059	2.1	-	-
Tractors (Total)	12,008	10,089	19.0	30,106	27,291	10.3	102,480	98,640
Total vehicles	31,379	27,905	12.4	90,160	75,855	18.9	347,780	324,663

Source: Company, ENAM Research. Volumes of LCV and Logan are part of JVs and hence there are no volume estimates for the same. # Export estimates for the full year do not include LCV sales and pertain only to UV portfolio.

Product breakup



■ M&HCV ■ LCV ■ Cars ■ UV's

TATA MOTORS (TAMO)

- Volumes for Heavy Commercial Vehicles (HCVs) clocked moderate growth of 5%, whereas LCVs volumes were up 33% in June. TAMO's car portfolio continues to decline, with 11% drop in June.
- JLR USA volumes for June: Land Rover volumes abated 47% YoY with 2,200 units, while Jaguar volumes registered a marginal decline of 3.5% at 1,360 units.
- Media reports have suggested that the *Nano* will be rolled out by Q4FY09, from the Singur facility.

TAMO: Volume break-up

(Nos)	Monthly			YTD			Y/E	
	June-08	June-07	YoY (%)	3MFY09	3MFY08	YoY (%)	FY09E	FY08
HCV	13,811	13,182	4.8	38,369	35,887	6.9	188,842	179,400
- Domestic	12,845	11,763	9.2	35,835	32,655	9.7	-	-
- Exports	966	1,419	(31.9)	2,534	3,232	(21.6)	-	-
LCV	15,837	11,913	32.9	40,797	35,404	15.2	195,662	173,434
- Domestic	13,952	9,654	44.5	35,645	29,044	22.7	-	-
- Exports	1,885	2,259	(16.6)	5,152	6,360	(19.0)	-	-
CAR	13,778	15,431	(10.7)	40,004	45,435	(12.0)	175,800	179,268
- Domestic	13,307	14,081	(5.5)	38,728	41,800	(7.3)	-	-
- Exports	471	1,350	(65.1)	1,276	3,635	(64.9)	-	-
UV	3,819	3,791	0.7	12,563	10,635	18.1	52,346	50,299
- Domestic	3,710	3,337	11.2	12,366	10,040	23.2	-	-
- Exports	109	454	(76.0)	197	595	(66.9)	-	-
Total	47,245	44,317	6.6	131,733	127,361	3.4	612,651	582,401

Source: Company, ENAM Research

TWO-WHEELER INDUSTRY

(Nos)	Monthly			YTD			Y/E	
	June-08	June-07	YoY (%)	3MFY09	3MFY08	YoY (%)	FY09E	FY08
Bajaj Auto								
- Motorcycles	175,903	162,253	8.4	558,633	493,565	13.2	2,233,704	2,139,156
- Total 2-wheelers	177,112	164,758	7.5	561,977	499,777	12.4	2,267,904	2,167,956
- Three-wheelers	19,629	22,866	(14.2)	58,118	71,336	(18.5)	312,000	290,301
Total Sales	196,741	187,624	4.9	620,095	571,113	8.6	2,579,904	2,458,257
TVS Motors								
- Scooters	21,466	25,962	(17.3)	65,823	70,040	(6.0)	294,000	259,521
- Motorcycles	51,409	47,380	8.5	164,328	150,530	9.2	769,664	616,740
- Mopeds	36,207	33,775	7.2	101,638	99,591	2.1	414,000	411,712
Total Sales	109,082	107,117	1.8	331,789	320,161	3.6	1,477,664	1,287,973
Hero Honda								
- Motorcycles	295,675	255,200	15.9	894,244	802,853	11.4	3,526,780	3,337,142
Total Sales	295,675	255,200	15.9	894,244	802,853	11.4	3,526,780	3,337,142

Source: Company, ENAM Research

- **Bajaj Auto (BAL):** BAL clocked moderate growth of 7.5% in two-wheelers, while three-wheelers declined by 14% in June. We expect Q1 profitability to be adversely affected by the decrease in three-wheeler volumes.
- **Hero Honda (HH):** HH continues to clock strong numbers with 16% growth in June. HH's Q1 performance is expected to be healthy on account of robust volumes and tax benefits from the Haridwar plant.
- **TVS Motors (TVS):** TVS registered a decline in scooters while motorcycles and mopeds grew marginally.

Auto valuation sheet: RECOMMENDATIONS ARE RELATIVE TO SECTOR

Co. Name	Period	Net sales (Rs.mn)	EBITDA (Rs.mn)	Adj. PAT (Rs.mn)	FDEPS (Rs.)	Core EPS (Rs.)	Cash per Share (Rs.)	Value of Invst (Rs.)	RoCE (%)	RoE (%)	Core P/E (x)
Tata Motors (Conso.)	FY07	360,329	38,115	21,467	52.7	52.7	-	-	28	30	-
(CMP: 390)	FY08	390,186	40,934	20,344	47.8	47.8	-	-	21	24	-
(MCap: Rs.141bn)	FY09E	454,219	42,275	19,687	46.2	46.2	-	-	17	20	8.4
(RECO: N)	FY10E	504,561	50,110	22,812	53.6	53.6	-	-	17	20	7.3
Tata Motors (Stand.)	FY07	267,153	32,274	19,135	47.0	47.0	-	196	30	31	-
(CMP: 390)	FY08	281,587	30,280	18,902	44.4	44.4	-	199	22	26	-
(MCap: Rs.141bn)	FY09E	305,947	28,392	15,272	35.9	35.9	-	199	16	18	5.3
(RECO: N)	FY10E	336,867	34,040	18,524	43.5	43.5	-	199	17	20	4.4
Maruti Suzuki	FY07	145,922	19,914	15,745	54.5	45.6	122	-	36	26	-
(CMP: 549)	FY08	179,148	23,675	18,359	63.5	51.8	144	-	32	24	-
(MCap: Rs.159bn)	FY09E	203,746	24,827	17,554	60.7	49.5	144	-	26	19	8.2
(RECO: OP)	FY10E	246,321	30,594	20,628	71.4	60.8	144	-	26	19	6.7
M&M (Stand.)	FY07	96,277	13,058	9,725	39.3	32.6	-	410	30	30	-
(CMP: 468)	FY08	109,938	13,445	9,463	36.7	31.6	-	312	22	24	-
(MCap: Rs.109bn)	FY09E	120,434	13,521	9,245	35.8	31.2	-	312	18	20	5.0
(RECO: OP)	FY10E	133,804	15,584	10,674	41.4	35.0	-	312	18	20	4.5
Ashok Leyland	FY07	71,682	7,027	4,544	3.4	3.4	-	-	20	28	-
(CMP: 28)	FY08	77,291	8,040	4,459	3.4	3.4	-	-	17	22	-
(MCap: Rs.37bn)	FY09E	87,432	7,950	4,050	3.0	3.0	-	-	14	18	9.2
(RECO: N)	FY10E	102,004	10,307	5,203	3.9	3.9	-	-	15	21	7.1
Hero Honda	FY07	99,000	11,730	8,579	43.0	34.9	101	-	51	38	-
(CMP: 666)	FY08	103,318	13,494	9,679	48.5	40.6	118	-	47	35	-
(MCap: Rs.133bn)	FY09E	113,862	14,741	11,078	55.5	47.2	118	-	42	33	11.6
(RECO: N)	FY10E	123,807	16,442	12,563	62.9	54.2	118	-	39	31	10.1
TVS Motor Co.	FY07	38,550	1,374	667	2.8	2.8	-	-	10	9	-
(CMP: 25)	FY08	32,195	722	169	0.7	0.7	-	-	3	2	-
(MCap: Rs.6bn)	FY09E	40,951	1,446	493	2.1	2.1	-	-	7	6	11.9
(RECO: UP)	FY10E	45,349	1,646	606	2.6	2.6	-	-	8	7	9.7

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

Note: Core PAT and EPS pertains to auto biz. and is adjusted for non operating income. P/E reflects multiple for core business. The TAMO valuations do not consider any impact of the JLR acquisition.

Sum of the Parts (SOTP) valuation for respective companies

Segment	Target Price (Rs)	SOTP
TAMO	554	Core biz valued at 10x FY09 EPS of Rs 36 - Rs 3/ share for JLR + Rs 198/ share for value of subsidiaries & investments
M&M	641	Auto and Tractor biz valued at 10.5x FY09E Core EPS of Rs 31.2+ Value of subsidiaries at Rs 312/ share, which is based on a proportionate share of mkt-cap of the entities (30% discount)
MSIL	873	Valued at 12x FY10 Core EPS of Rs 61 + Cash/ Equivalents of Rs 144/ share
Bajaj Auto	573	Valued on 10x FY09E core EPS of Rs 48.1 + Cash/ Equivalents of Rs 92/ share
HH	779	Core biz. valued at 14x Core EPS of Rs 47.2 + Cash/ Equivalents of Rs 118/ share
TVS	25	12x FY09 EPS of Rs 2.1
ALL	34	11x FY09 EPS of Rs 3.1

Source: ENAM Research

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Disclosure of interest statement (As of July 3, 2008)	Ashok Leyland	Bajaj Auto	Hero Honda	TVS Motors	Tata Motors	M & M	Maruti Udyog
1. Analyst ownership of the stock	No	No	No	No	No	No	No
2. Firm ownership of the stock	No	No	No	No	No	No	No
3. Directors ownership of the stock	No	No	No	No	No	No	Yes
4. Investment Banking mandate	No	No	No	No	No	No	No
5. Broking relationship	No	No	No	No	No	No	No

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