KSL - Sector Update

KHANDWALA SECURITIES LIMITED

Auto Update

February 10, 2010

On Fiscal Gear

Current Scenario

- ✓ Riding high on fiscal stimuli, easy availability of finance, upturn in economy, improved consumer sentiments and low base effect auto sector laid strong YTD growth of 23.0% (passenger vehicles grew 25.2%, 2W up 23.7%, CV sales grew 30.3% and 3W up 25.7%).
- ✓ Major 2W players (BAL and HH) report 740 - 280 bps OPM expansion in 3QFY10 to 17-18%. TVS reported much lower margin at 7.8%); Maruti clocked OPM of 15% and other 4W players in the range of 12-15%.
- ✓ Better product mix (increased share of high-end models), lower raw material cost and volumes growth helped companies clock gains in OPMs.
- ✓ Export volumes improved for almost all companies as there is improvement in sentiments globally pushing YTD exports of MSIL 141.9% and 10.9% for BAL.
- ✓ Pick up in industrial activity on government stimulus drove YTD CV sales growth for Tata Motors by 37%. Higher freight rates push growth in M&HCV segment.
- ✓ 3W segment demonstrated a healthy growth driven by both passenger and goods carrier, BAL with market share of 59% put YTD growth of 19.8% standing at 277,624 units.
- ✓ Large number of launches in small car segment by VW Polo, GM Beat and Toyota Etios at recent auto expo signal India's growing importance as small car hub.

Outlook

- ✓ Fear of duty hikes in annual budget, Feb '10 sales volumes likely to portray similar growth pattern seen in January.
- ✗ Roll back of earlier sops could impact customer affordability and hurt demand.
- ✗ High OPMs in 3Q stood on lower raw material and retention of duty sops. Adverse movement in both expected to negatively hit bottom-line.
- ✓ RBI's U-turn in accommodative policy by CRR hike of 75 bps indicates tight monetary stance though interest rates likely to remain sticky for some time on account of excess liquidity. Rate hikes might be seen only after revival in credit demand expected from Q2FY11.
- ✗ Passenger car volumes of old models remain stagnant or show de-growth implying auto makers to constantly churn portfolio and offer new models to retain market share.
- ✗ New launches in 2W and compact car segment may increase competitive pressure negatively impacting realization.

Strategy:

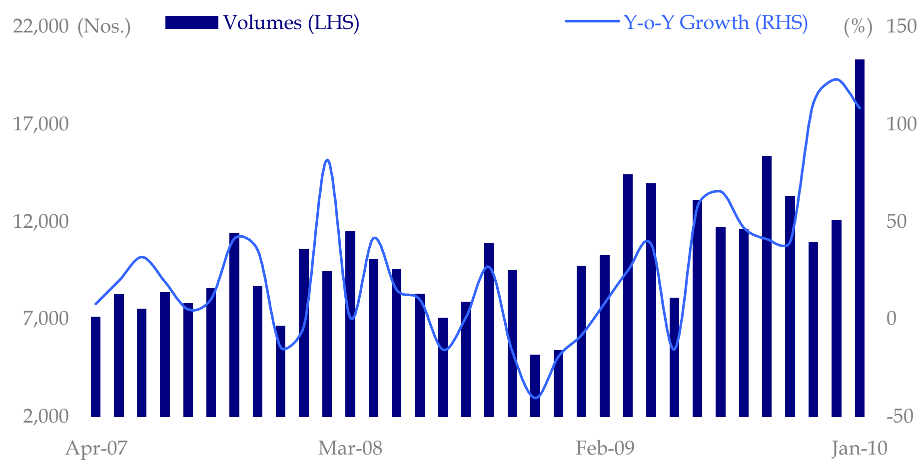
Wait and watch for continuation, or otherwise, of fiscal sops in annual budget. And trends in key commodity prices.

Mahindra and Mahindra (M&M)

- ✓ M&M registered domestic sales of 28,988 units, as against 17,320 units in Jan 09, an increase of 67.4%.
- ✓ Total UV sales in Jan 10 stand at 20,332 units, as against sales of 13,397 units in Jan 2009, which is a growth of 51.8%.
- ✓ The Mahindra Gio, which created the new compact truck segment, has been receiving a tremendous response from all launch markets. Company launched Maxximo in the Feb at very competitive prices of INR 2.79 lakhs.
- ✓ Sold a total of 30,149 vehicles (including exports and domestic) in Jan 10 as against 17,611 in Jan 09.
- ✓ In the Tractor segment total sales for the month of Jan 10 stood at 16,879 units against 9,759 in Jan 09, up by 73%. Export for the month increased by 197.0% standing at 954 units, in comparison to 321 units last year.

	January			YTD		
Segment	**2010**	**2009**	***% Gwth***	**FY2010**	**FY2009**	***% Gwth***
UV's	20,332	13,397	*51.8*	175,458	118,962	*47.5*
3/W, GIO & Maxximo	7,300	2,823	*158.6*	42,298	37,075	*14.1*
MNAL LCV	801	503	*59.2*	7,989	7,383	*8.2*
MRPL Logan	555	597	*-7.0*	4,445	11,453	*-61.2*
Domestic Total	**28,988**	**17,320**	***67.4***	**230,190**	**174,873**	***31.6***
M&M Exports	1,161	291	*299.0*	7,499	7,739	*-3.1*
MRPL Exports	-	-	-	1,000	1,360	*-26.5*
Total Sectoral	**30,149**	**17,611**	***71.2***	**238,689**	**183,972**	***29.7***
Farm Equipment Sector						
Domestic	15,925	9,438	*68.7*	137,453	93,599	*46.9*
Export	954	321	*197.2*	7,096	6,520	*8.8*
Total	**16,879**	**9,759**	***73.0***	**144,549**	**100,119**	***44.4***

Total Utility Vehicles



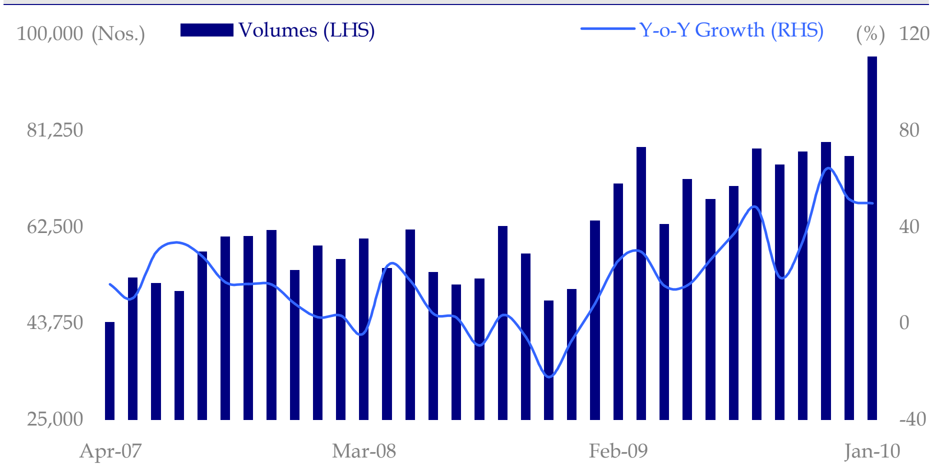
Source: Khandwala Research, Company, SIAM

Maruti Suzuki India (MSIL)

- ✓ Maruti Suzuki in month of January sold a total of 95,649 unit's growth of 31.8% YoY (71,779). Clocking highest ever domestic as well as total sales for the company.
- ✓ The A2 Segment grew by 24.8% YoY at 58,540; A3 grew by 36.5% at 8,995 units.
- ✓ A1 segment continue to show sluggish sale marking the de-growth of (55.2%) YoY at 2,494 units.
- ✓ Export continues to be in growth trajectory with escalation of 205.0% YoY at 14,562 units versus 4,774 units in Jan 2009. YTD exports no totaled at 120,097 units (up by 141.9% YoY).

	January			YTD		
Segment/Models	**2010**	**2009**	***% Gwth***	**FY2010**	**FY2009**	***% Gwth***
A1						
M800	2,494	5,571	*-55.2*	27,088	42,878	*-36.8*
C						
Omini, Eeco	10,923	7,759	*40.8*	79,782	64,286	*24.1*
A2						
Alto, Wagon-R, Zen, Swift, A-Star, Ritz	58,540	46,899	*24.8*	518,047	405,650	*27.7*
A3						
SX4,D'Zire	8,995	6,590	*36.5*	78,608	59,290	*32.6*
Total Passenger Cars	**80,952**	**66,819**	***21.2***	**703,525**	**572,104**	***23.0***
MUV						
Gypsy, Grand Vitara	135	186	*-27.4*	2,970	5,560	*-46.6*
Domestic	81,087	67,005	*21.0*	706,495	577,664	*22.3*
Export	14,562	4,774	*205.0*	120,097	49,644	*141.9*
Total Sales	**81,087**	**67,005**	***21.0***	**706,495**	**577,664**	***22.3***

Total Passenger Vehicle



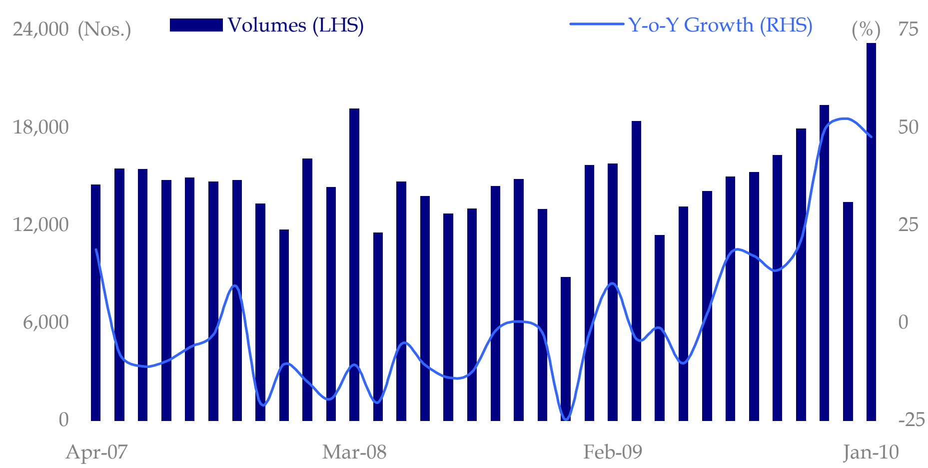
Source: Khandwala Research, Company, SIAM

Tata Motors (TML)

- ✓ Tata Motors reported total units (including exports) sale for the month of Jan 10 65,478 units, a growth of 77.3% YoY over 36,931 units. Cumulative sales (including exports) increased by 24.4% at 498,108 units. Domestic sale of passenger and commercial vehicle in Jan 2010 grew by 74.0%.
- ✓ Commercial Vehicle (domestic) marked second ever highest volume of 35,957 units, a growth of 106.8% YoY on the back of highest ever sale of LCV at 17,373 units versus 11,574 and M&HCV segment striking a up move of 170.0% at 15,702 no.
- ✓ Passenger vehicle segment reported off take of 28,547 (including Fiat) units in the domestic market in Jan 10, the highest ever and 43% increase YoY. Company sold 4,001 Nano, the Indica range sales were flat YoY at 11,408 units, the Indigo range recorded sale of 7,258 units highest ever since launch in 2002 clocking growth of 83.0% YoY (on the back of budding acceptance of Indigo Manza) and Sumo/Safari range accounted for sale of 3,538 units a growth of 21.0% (although cumulative sale of this range has decreased by 17% at 25,630 units.
- ✓ Export marked growth of 167% at 3,276 units versus 1,227 vehicles in Jan 09. Cumulative export sales are lower by 11.5% compared to 30,293 units last year.

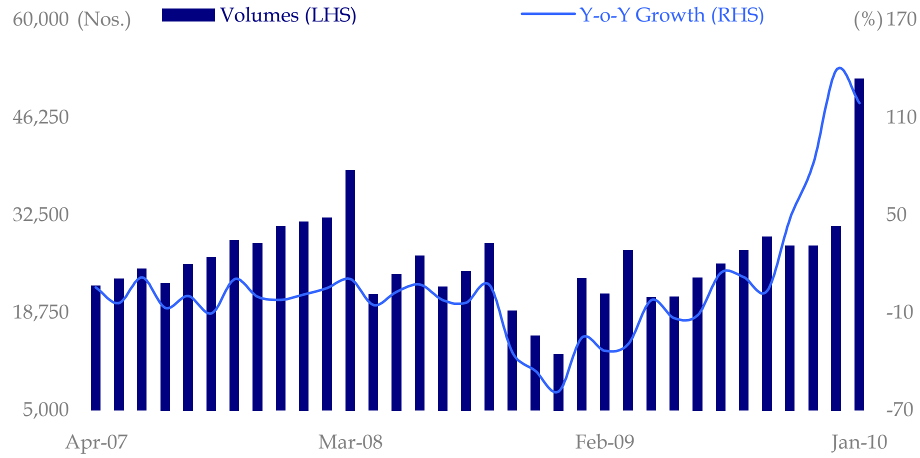
	January			YTD		
Segment	**2010**	**2009**	***% Gwth***	**FY2010**	**FY2009**	***% Gwth***
LCV	20,255	11,574	*75.0*	174,276	120,190	*45.0*
M&HCV	15,702	5,816	*170.0*	116,849	92,737	*26.0*
Total Commercial	**35,957**	**17,390**	***106.8***	**291,125**	**212,928**	***36.7***
Passenger	28,547	19,911	*43.4*	200,573	162,425	*23.5*
Export	3,276	1,227	*167.0*	26,799	30,293	*-11.5*
Total Sales	**65,478**	**36,931**	***77.3***	**498,108**	**400,284**	***24.4***

Total Passenger Cars



Source: Khandwala Research, Company, SIAM

Total Commercial Vehicles



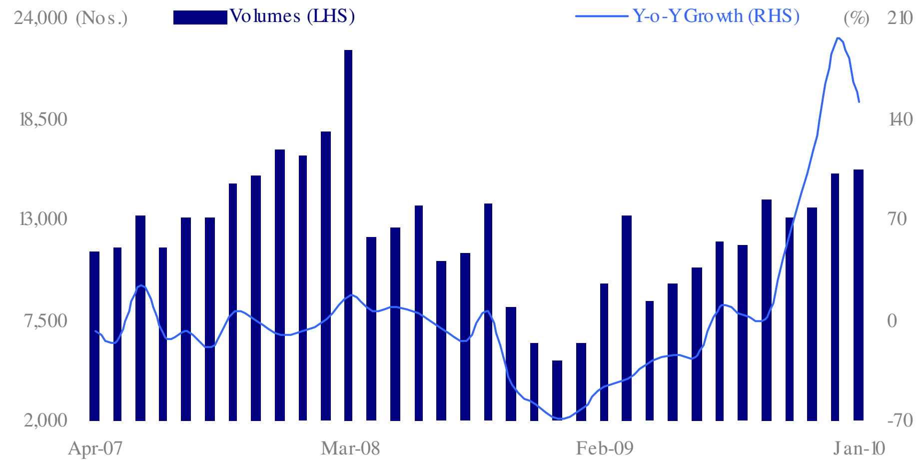
Source: Khandwala Research, Company, SIAM

Bajaj Auto (BAL)

- ✓ Bajaj Auto's Jan 10 sale increased by 112.0% YoY at 232,939 units versus 109,666 units in Jan 09; as BAL sold all time high of 71,970 units of Pulsars and Discover continues to post strong numbers sold around 92,000 units in the month; Pulsar and Discover currently holds around 60-70% of total BAL motorcycle sale.
- ✓ BAL holds around 32% of market share in motorcycle segment a gain of 11.0% in market share from approximately 21.0% in the corresponding period last year. High volumes were witnessed by pulsar and discover brand. This was supported by newly launched pulsar 135 cc which sold around 28,000 units in the month of Jan 10 helping the company gain market share by 4.0%.
- ✓ Three-wheeler too moved further northward registering growth of 50.0% YoY standing at 32,969 units. Export grew by 32.7% YoY at 71,695 units versus 54,027 units in Jan 09.

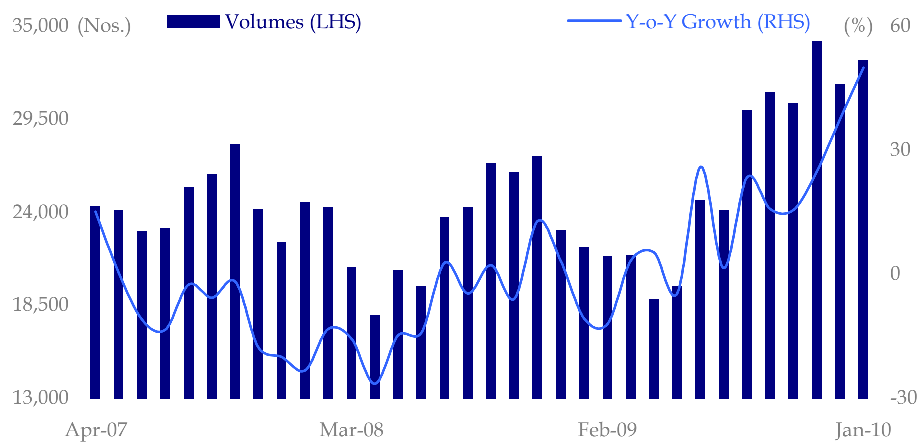
	January			YTD		
Segment	**2010**	**2009**	***% Gwth***	**FY2010**	**FY2009**	***% Gwth***
Motorcycles	232,939	109,666	*112.4*	2,027,298	1,643,815	23.3
Total 2 Wheelers	233,049	110,363	*111.2*	2,032,001	1,654,549	*22.8*
3 Wheelers	32,969	21,985	*50.0*	277,624	231,684	*19.8*
Total 2&3 Wheeler	**266,018**	**132,348**	***101.0***	**2,309,625**	**1,886,233**	**22.4**
Exports (exl above)	71,695	54,027	*32.7*	748,226	674,907	*10.9*

Total Two Wheelers



Source: Khandwala Research, Company, SIAM

Total Three Wheelers



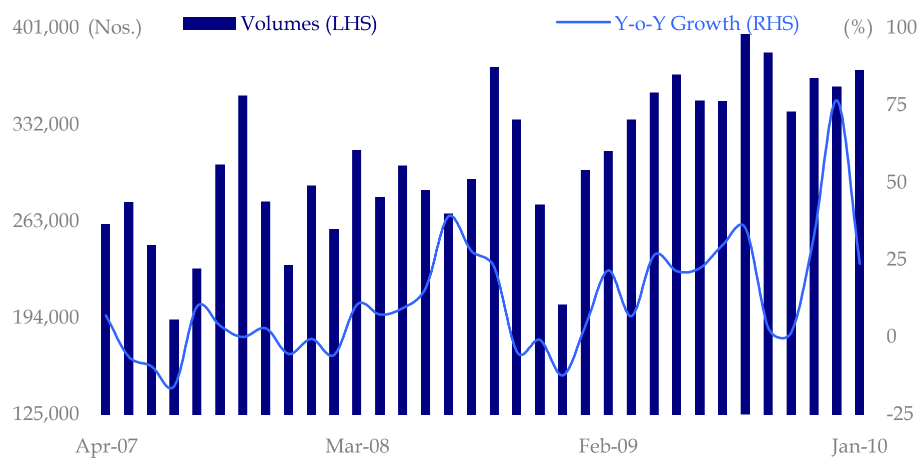
Source: Khandwala Research, Company, SIAM

Hero Honda Motors (HHML)

- ✓ HHML sold 389,802 units in the Jan 10 marking significant growth of 23.6%, despite the high base of 315,458 units.
- ✓ Growth was propelled with a good all round performance from all segments and region. With continuous investment in innovative and ground breaking brand building initiative helped company to clock monthly sales of more than 0.3 mn for thirteen consecutive months.
- ✓ HHML so far have launched six new models during the financial year and look further to launch new models to further augment its product portfolio, Hero Honda's "Pleasure" is showing up move; having an average sale volume of 17,000 per month.

	January			YTD		
Segment	**2010**	**2009**	***% Gwth***	**FY2010**	**FY2009**	***% Gwth***
Motorcycle	389,802	315,458	*23.6*	3,801,396	3,039,603	*25.1*

Total Motorcycles



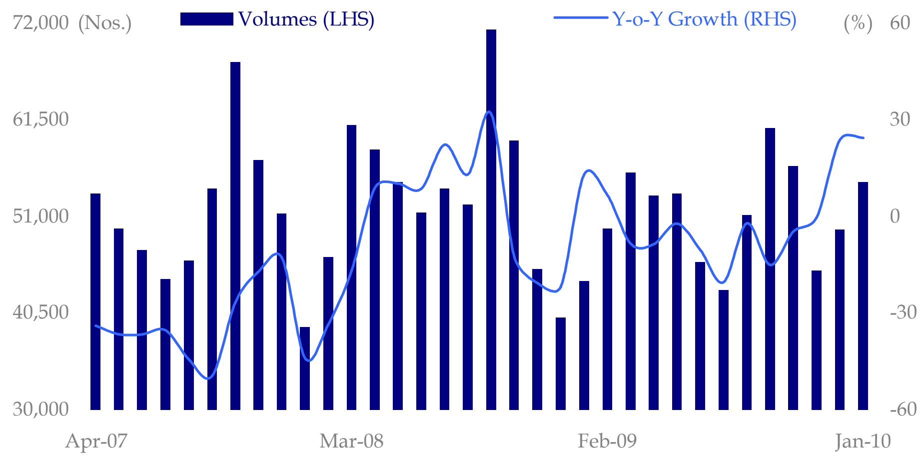
Source: Khandwala Research, Company, SIAM

TVS Motors (TVS)

- ✓ TVS Motors two wheelers sales expanded by 34.0% YoY in Jan 10 standing at 125,578 units against 93,729 units in corresponding period last year, largely explained by good performance in executive and premium segments, scooter and mopeds sale which increased by 43.1% and 42.2% YoY respectively.
- ✓ Continuing its upward trend, exports recorded a growth of 15% registering sales of 16,074 units of two wheelers in Jan 10 as against 14,000 units in the corresponding period of the previous year.
- ✓ TVS's three wheelers sales logged capacious growth recording 1,710 units in the month of Jan 10 as against 466 units registered in Jan 09. Cumulative three wheeler sales for the period Apr 09 to Jan 10 stood at 10,417 units.
- ✓ TVS plans to go ahead with all India sale of its newly launched Jive (currently launched in Tamil Nadu sold about 1,600 units in Jan) management expects to sell 15,000-20,000 units of Jive by Mar 10.

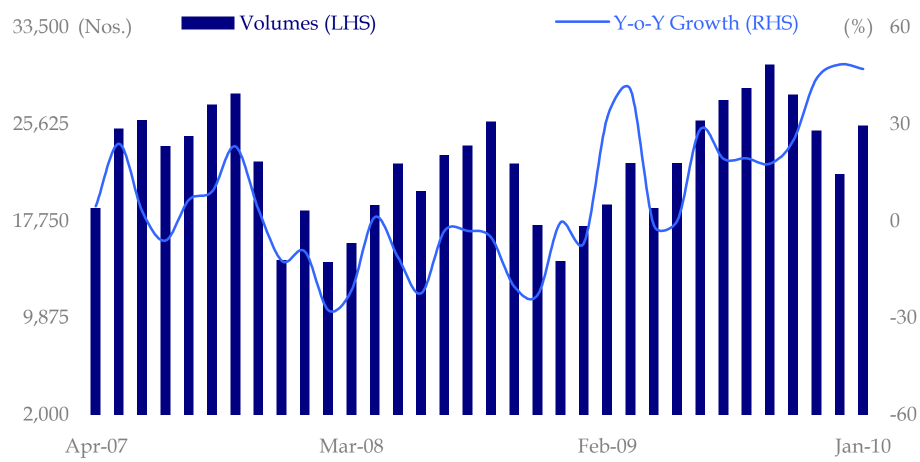
	January			YTD		
Segment	**2010**	**2009**	***% Gwth***	**FY2010**	**FY2009**	***% Gwth***
Motorcycle	54,698	43,990	*24.3*	513,424	530,527	*-3.2*
Scooter	25,509	17,832	*43.1*	253,880	219,805	*15.5*
Mopeds	45,371	31,907	*42.2*	467,378	354,879	*31.7*
Total 2 Wheelers	**125,578**	**93,729**	*34.0*	**1,234,682**	**1,105,211**	*11.7*

Total Motorcycles



Source: Khandwala Research, Company, SIAM

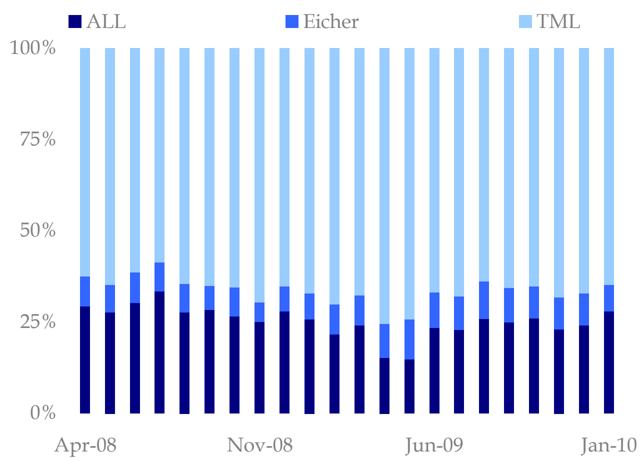
Total Scooters



Source: Khandwala Research, Company, SIAM

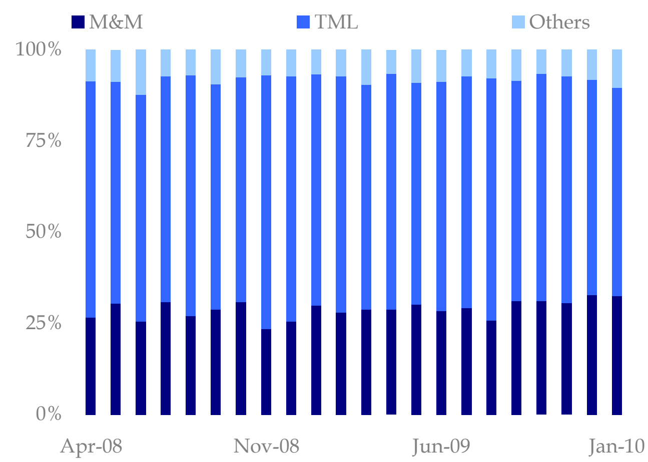
Market Share

Commercial Vehicle (M&HCV)



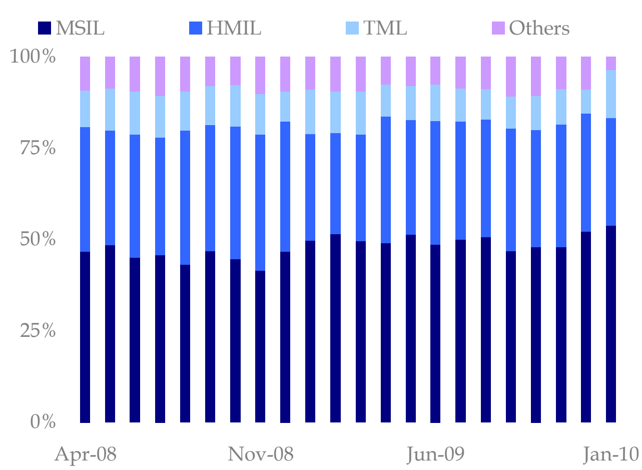
Source: Khandwala Research, Company, SIAM

Commercial Vehicle (LCV)



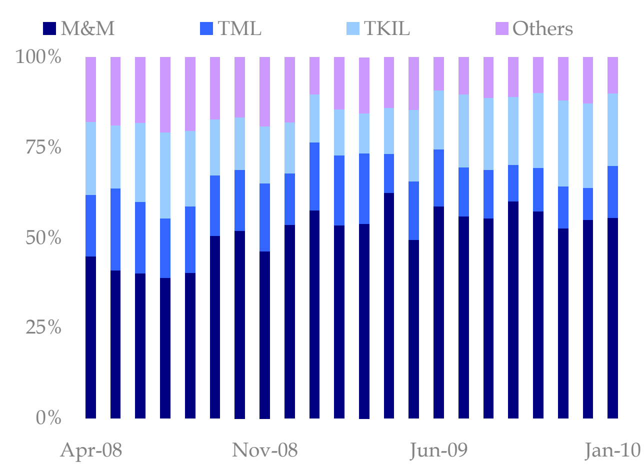
Source: Khandwala Research, Company, SIAM

Passenger Vehicles



Source: Khandwala Research, Company, SIAM

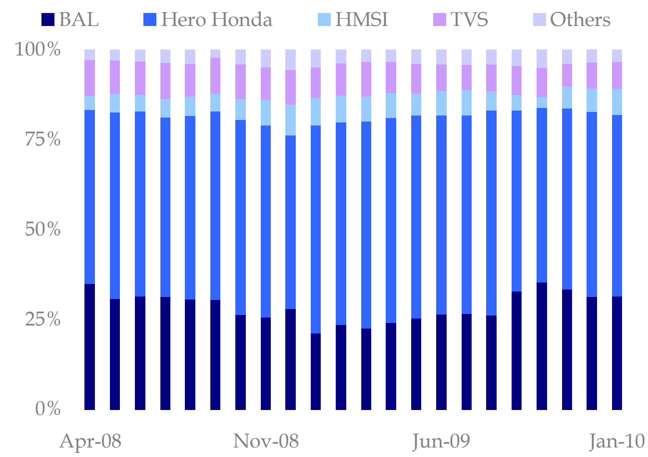
Utility Vehicles



Source: Khandwala Research, Company, SIAM

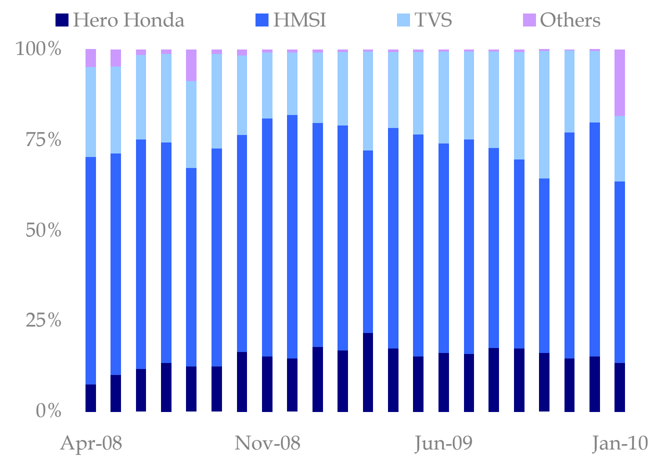
Market Share: Two Wheelers

Motorcycles



Source: Khandwala Research, Company, SIAM

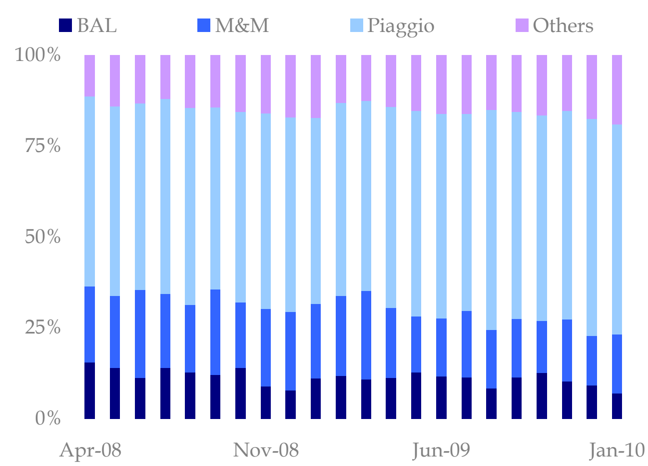
Scooters



Source: Khandwala Research, Company, SIAM

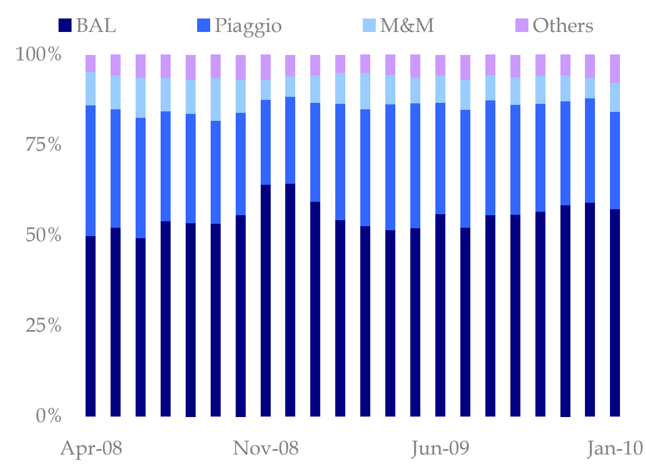
Market Share: Three Wheelers

Goods Carriers



Source: Khandwala Research, Company, SIAM

Passenger Carriers



Source: Khandwala Research, Company, SIAM

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KSL Ratings

Target Price refers to one year unless specified; CMP: Last closing price

BUY: Expected return >15

ADD: Expected return 0-15

REDUCE: Expected decline 0-15

SELL: Expected decline >15

Company Risk is based on the systematic risk of the stock. (1-year Beta)

HIGH: >1.2

MEDIUM: 0.8-1.2

LOW: < 0.8

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