



Indian Autos

Strong momentum on; valuation not far behind

Analyst: Bhaumik Bhatia
+91-22-4322 1189
bhaumik.bhatia@idbicapital.com

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Quarter gone by...

Strong volume momentum

- Volume momentum strong with 31% growth YoY and 6% growth QoQ for our auto universe. QoQ growth was led by two wheelers, while four wheelers, especially commercial vehicles declined.

Volume (units)	Q1FY11	Q1FY10	YoY %	Q4FY10	QoQ %	Comments
Hero Honda	1,234,038	1,118,987	10.3	1,186,536	4.0	Steady growth on positive industry dynamics, however losing market share to more aggressive competition
Bajaj Auto	928,336	547,662	69.5	808,929	14.8	Successful launches and consumer uptrading
TVS Motor	463,840	349,386	32.8	419,245	10.6	Positive initial response to new launches
Maruti Suzuki	283,324	226,729	25.0	287,422	(1.4)	Positive industry dynamics, however losing market share to new launches by peers and capacity constraints
M&M	132,243	106,129	24.6	136,704	(3.3)	Industry leadership and strong rural economy leading to strong volumes
Tata Motors	181,715	123,110	47.6	210,057	(13.5)	Healthy freight environment and strong passenger vehicle demand
Ashok Leyland	21,402	7,698	178.0	25,807	(17.1)	Healthy freight environment and pick up in Southern market
Aggregate	3,244,898	2,479,701	30.9	3,074,700	5.5	

Source: Company, IDBI Capital Research

Margin pressure seen on higher RMC

- EBITDA margin (excl. TTMT) down 2.5% QoQ on higher RMC/sales at 73.4%, (up 210bps QoQ), though partially compensated by strong pricing power (3-5% prices hikes across players in the last 12 months). TTMT margin up QoQ on high one-off expenditure in Q4FY10.

EBITDA margin (%)	Q1FY11	Q1FY10	YoY %	Q4FY10	QoQ %
Hero Honda	14.0	17.0	(3.0)	17.3	(3.2)
Bajaj Auto	20.0	19.5	0.5	22.9	(2.9)
TVS Motor	6.4	6.3	0.1	7.1	(0.6)
Maruti Suzuki	9.6	12.2	(2.6)	13.2	(3.6)
M&M	15.0	14.4	0.7	15.9	(0.9)
Tata Motors	11.1	11.2	(0.1)	9.3	1.8
Ashok Leyland	10.0	1.3	8.7	12.9	(2.8)
Aggregate	12.4	13.1	(0.7)	13.4	(1.0)
Aggregate excl. TTMT	12.9	13.7	(0.8)	15.4	(2.5)

Source: Company, IDBI Capital Research

Tax rates trending lower

- Increasing production at tax havens (Uttarakhand and Himachal Pradesh) and higher R&D spends enable lower tax rates (effective tax rate at 24.5% vs. 27.5% in Q4FY10 and 25.6% in Q1FY10).

Effective tax rate (%)	Q1FY11	Q1FY10	YoY %	Q4FY10	QoQ %
Hero Honda	19.4	23.4	3.9	18.8	(0.7)
Bajaj Auto	28.6	29.6	1.0	26.5	(2.0)
TVS Motor	20.1	9.6	(10.5)	2.4	(17.7)
Maruti Suzuki	27.6	27.7	0.1	31.2	3.6
M&M	22.0	25.5	3.5	25.8	3.7
Tata Motors	26.4	15.0	(11.4)	39.9	13.5
Ashok Leyland	16.6	11.1	(5.5)	25.6	9.0
Aggregate	24.5	25.6	1.0	27.5	3.0

Source: Company, IDBI Capital Research

Earnings traction led by lower tax rate and higher other income

- PAT up 36% YoY on strong demand traction, lower tax rate and higher other income. However, down sequentially on lower other income.

PAT	Q1FY11	Q1FY10	YoY %	Q4FY10	QoQ %
Hero Honda	4,917	5,001	(1.7)	5,988	(17.9)
Bajaj Auto	5,902	3,096	90.6	5,771	2.3
TVS Motor	402	181	122.0	508	(20.8)
Maruti Suzuki	4,654	5,835	(20.3)	6,566	(29.1)
M&M	5,624	4,009	40.3	5,703	(1.4)
Tata Motors	3,957	1,949	103.1	3,356	17.9
Ashok Leyland	1,226	(427)	(387.3)	2,231	(45.0)
Aggregate	26,682	19,644	35.8	30,122	(11.4)

Source: Company, IDBI Capital Research

Outlook

India structurally set for strong demand

Capex plans indicate strong demand expectations

- Most players in the auto industry are operating at >80% utilization and have earmarked significant capex over FY11-13E.
- Based on our interactions with various industry participants and news reports, we estimate total capex to be in the range of Rs250-300 bn over FY11-13 across players, accounting for ~25% additional capacity.
- This reflects auto manufacturers' belief in the sustainability of strong demand momentum. This is further vindicated by similar capacity expansion plans across auto ancillary players.

Capacity expansion plans

(Units)	Current capacity	Capacity expansion	Capex (Rs bn)	Time period
Maruti Suzuki	1,200,000	500,000	60.0	FY11-13
Tata Motors	1,260,000	n.a.	80.0	FY11-13
M&M	597,000	n.a.	45.0	FY11-13
Honda	120,000	60,000	10.0	FY11
Ford	100,000	100,000	15.0	n.a.
Toyota	70,000	100,000	20.0	n.a.
Bajaj Auto	4,200,000	1,000,000	2.5	FY11
Hero Honda	5,400,000	1,000,000	3.0	FY11
Eicher	50,000	50,000	5.0	FY11-13
Ashok Leyland	100,000	50,000	12.0	FY11-12
TVS Motor	2,400,000	400,000	1.3	FY11
HMSI	1,200,000	1,000,000	3.0	n.a.
Total	16,697,000	4,260,000	256.8	

Source: Company, IDBI Capital Research

Volume CAGR for coverage universe at 12-17% over FY10-12E

We believe structural demand drivers for all segments of Indian auto industry are in place to continue strong growth trajectory over the next 5-10 years. However, with more global players entering the Indian auto market, we believe competitive intensity is likely to rise in the foreseeable future, as more players fight to get their share of the Auto pie. We see passenger cars being most intensely competitive over the next few years and utility vehicles and tractors to be the least competitive.

- Within the passenger car segment, we believe volume growth will be driven by small and compact segments led by drop in entry level prices, rising affordability, new launches and strong exports.
- Utility vehicles growth will be driven by growth in the commercial UV segment with rising demand from tour operators, BPOs and financial services.
- Two wheeler growth will be driven by >100 cc segment as buyers look for improved bike performance at affordable prices and high fuel efficiency.
- Three wheeler growth will be driven by passenger segment, while commercial vehicles growth will be driven at lower end by smaller LCVs, and at higher end by multi-axles, tippers and trailers.

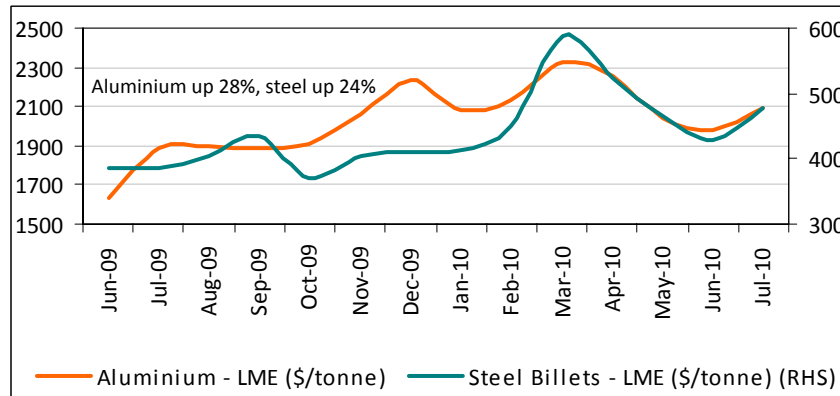
We expect volumes for companies under our coverage to register 12-17% CAGR over FY10-12E.

Segment	CAGR over FY10-12E
Passenger vehicles	12%
Commercial vehicles	17%
Two wheelers	16%
Tractors	12%

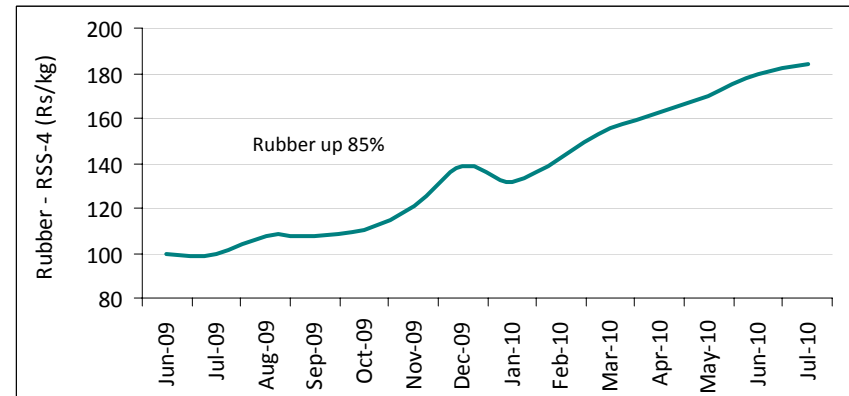
Source: IDBI Capital Research

...however, input costs beginning to impact margin

- Most of the raw materials like steel, aluminium, rubber, among others have risen by ~25% over the past 12-15 months.

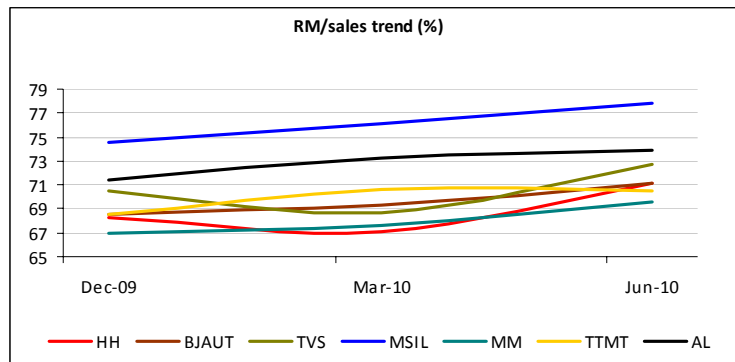


Source: Bloomberg, IDBI Capital Research

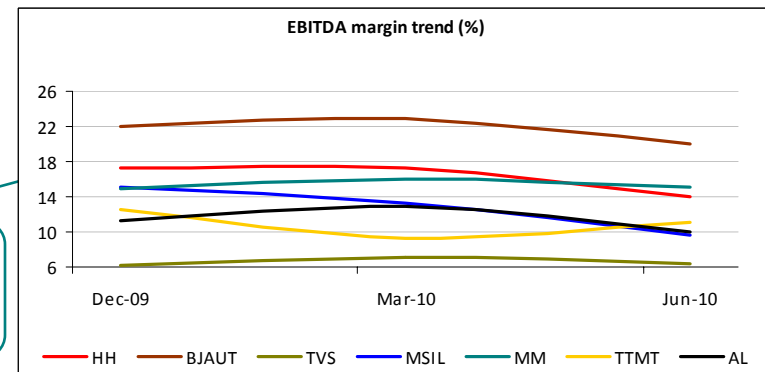


Source: Rubber Board, IDBI Capital Research

- This has started impacting raw material costs as % of sales of auto OEMs from Q4FY10 onwards and the impact is likely to continue till Q2FY11/Q3FY11, beyond which prices are expected to stabilize/marginally soften.



Source: Company, IDBI Capital Research



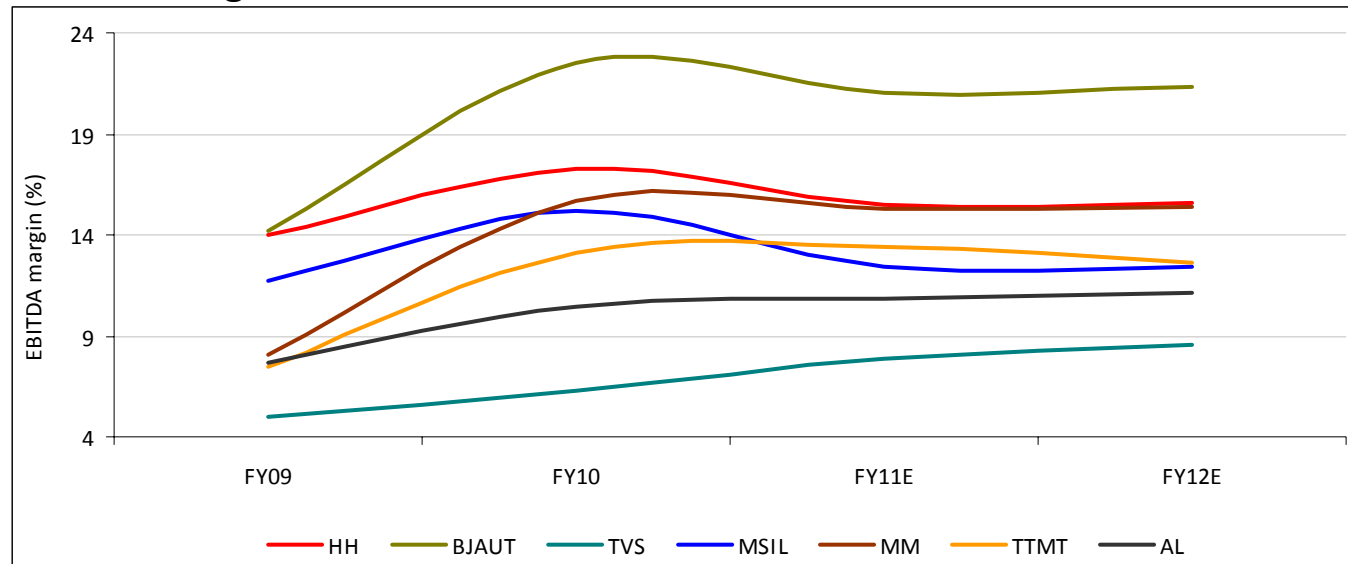
Source: Company, IDBI Capital Research

Rising RMC;
declining margin

...margin to contract marginally in FY11; stabilize in FY12

- We expect EBITDA margin for auto OEMs to contract only marginally in FY11 and stabilize in FY12, led by operating leverage benefits and price hikes taken across categories (3-5% in the last 12 months).
- Moreover, fiscal benefits from tax haven plants should partially aid in arresting margin decline.

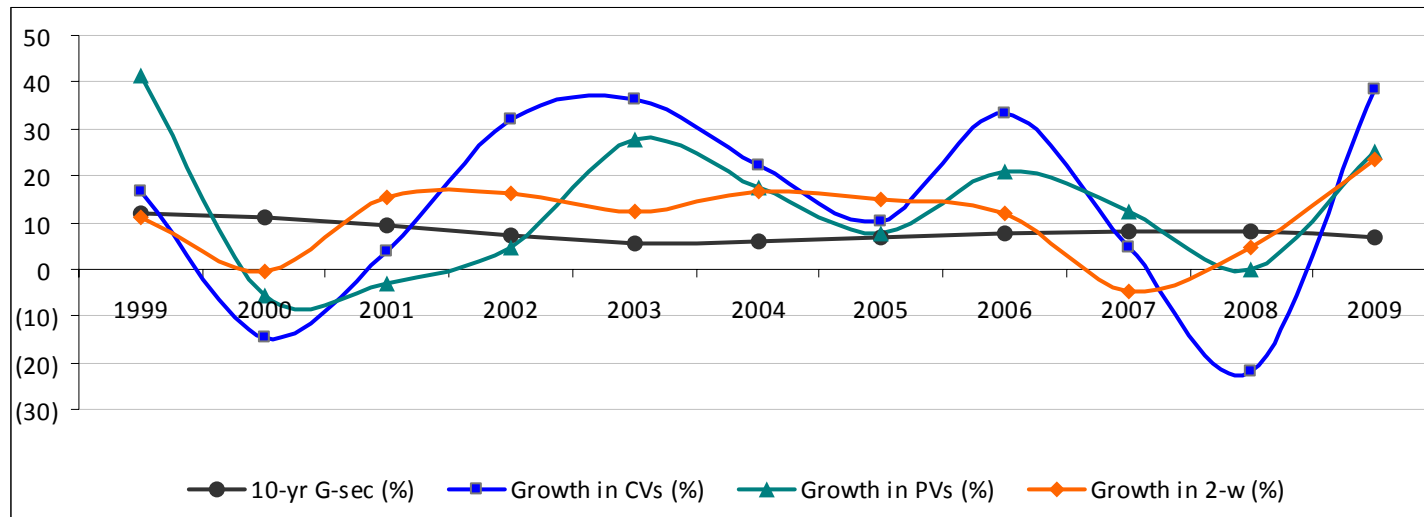
EBITDA margin trend



Source: Company, IDBI Capital Research

Concerns: Largely macro-economic

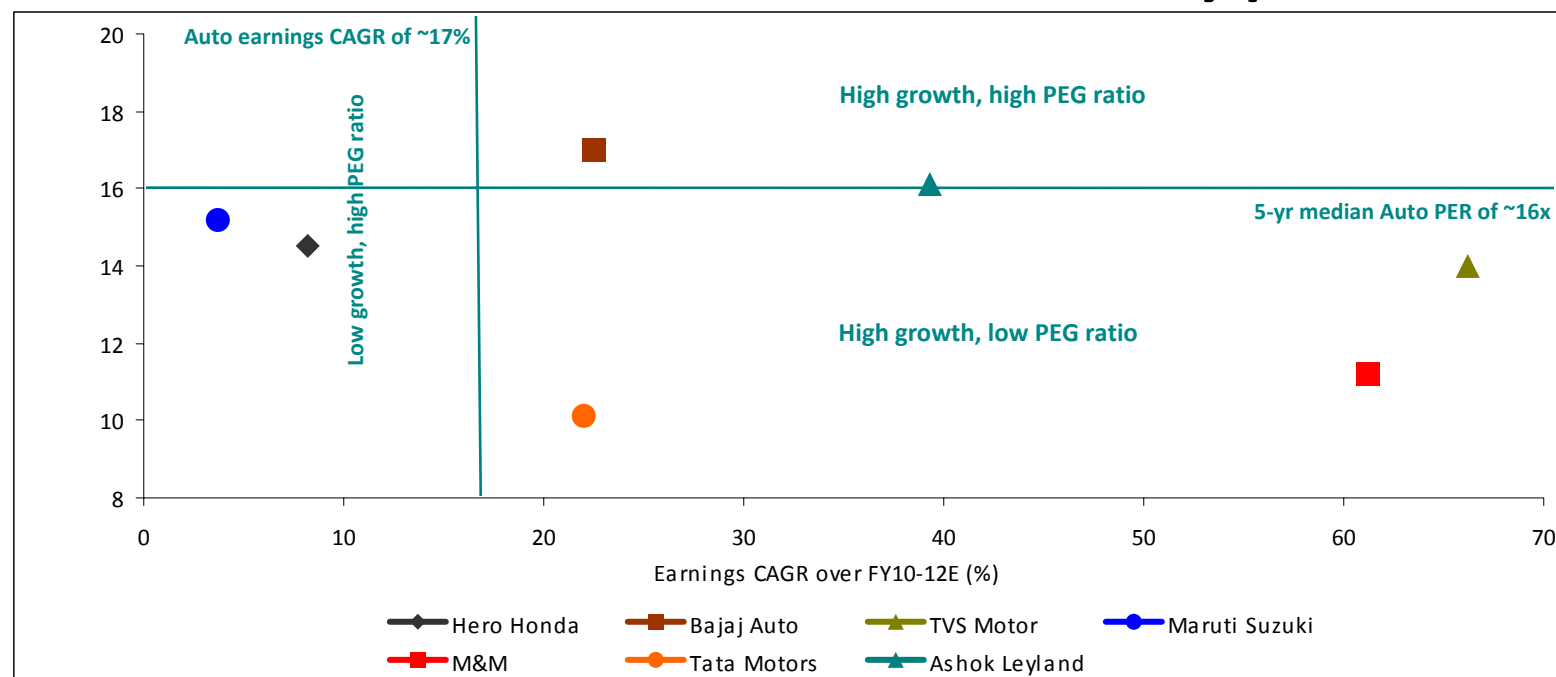
- Interest rates inching up; however, history suggests low correlation with demand.



Source: Bloomberg, SIAM, IDBI Capital Research

- Rising commodity prices could impact margin; but largely factored in for FY11E.
- Economic slowdown could result in credit crunch and impact infrastructure spending, thereby slowing down growth.

Valuation matrix – M&M, TVS attractively placed



Source: Bloomberg, IDBI Capital Research

- Most auto companies (barring TVS and M&M) are currently trading close to or above historical median PER and we believe that we are close to the peak on the valuation curve. Nonetheless, **we find significant value in TVS and M&M and are positive on Tata Motors, considering expected strong earnings traction.**
- We like TVS led by expectation of 94% earnings CAGR over FY10-12E, on positive response to new launches, improving product mix, operating leverage benefits and reduced losses in Indonesian operations. We expect this to aid in narrowing valuation discount versus Bajaj Auto and Hero Honda.
- We like M&M led by robust business model and market leadership in two of the least competitive auto segments – UVs and tractors. Moreover, most of its subsidiaries have exhibited strong operating performance over the past 12 months, which further strengthens its business profile.

Peer valuation

Indian peer comparison

Rs mn	CMP (Rs)	Reco	Mkt cap (Rs bn)	Target price (Rs)	Revenue		EPS (Rs)		P/E (x)		EV/EBITDA (x)	
					FY11E	FY12E	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E
Hero Honda	1,722	HOLD	344	1,856	183,107	208,793	116.0	132.6	14.8	13.0	10.5	8.6
Bajaj Auto	1,470	HOLD	425	1,402	151,869	177,539	78.9	93.4	18.6	15.7	13.0	10.9
TVS Motor	77	BUY	36	98	59,429	71,553	4.8	7.0	16.1	11.0	9.3	6.1
Maruti Suzuki	1,423	HOLD	411	1,309	346,896	392,776	81.7	93.5	16.8	14.6	9.3	6.5
M&M*	670	BUY	388	848	219,045	263,309	42.2	49.7	15.9	13.5	10.5	8.5
Tata Motors*	1,054	ACCUMULATE	584	1,148	416,765	510,802	42.3	49.3	24.9	21.4	13.0	10.5
Ashok Leyland	76	HOLD	92	79	100,571	119,370	4.4	5.6	17.4	13.5	10.2	8.3

* Standalone Financials

Source: IDBI Capital Research

Global peer comparison

US\$ mn	CMP (US\$)	Mkt Cap (US\$ mn)	Revenue		EPS (\$)		P/E (x)		EV/EBITDA (x)	
			CY10E / FY11E	CY11E / FY12E	CY10E / FY11E	CY11E / FY12E	CY10E / FY11E	CY11E / FY12E	CY10E / FY11E	CY11E / FY12E
BMW AG	61	39,097	73,451	77,530	5.0	6.2	12.3	9.9	2.6	2.4
Daimler AG	57	60,672	118,674	126,486	4.7	5.7	12.2	10.0	4.3	3.9
Suzuki Motor	21	11,943	30,638	32,436	0.9	1.2	22.8	18.0	3.9	3.5
Honda Motor	35	62,611	110,148	117,595	3.3	3.4	10.6	10.1	6.9	6.1
Toyota Motor	36	123,205	232,824	244,727	1.8	2.7	19.4	13.3	12.5	10.4
Ford Motor	12	40,825	113,926	122,838	1.8	1.8	6.7	6.4	5.0	4.5
Fiat SpA	13	15,877	68,883	73,978	0.3	1.1	44.9	12.4	3.7	3.2

Source: Bloomberg

Indian universe valuation matrix suggests “Toyota” like investment case.

Segment outlook

Blessed by India demographics; competition intense and rising

Two wheelers: Demography, exports drive 16% volume CAGR

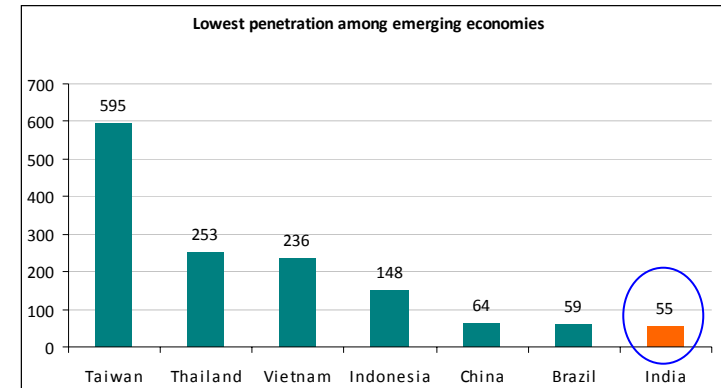
Demand drivers

- Rising per capita income levels
- Penetration levels still very low (55/1,000 people)
- Strong rural growth – rural sales growing faster than urban sales; rural sales estimated at 45-50% of total two-wheeler sales
- Shortening vehicle life cycles, replacement demand expected at 45-50% of sales
- New launches – Discover, Twister, Unicorn Dazzler, Jive, Pulsar - targeted towards consumer uptrading to executive and premium segments. 2-w pie moving more and more towards these segments and away from entry segment
- Foray into markets like Africa, Indonesia, Thailand, Iran, Latin America and deeper penetration in existing SAARC markets

Risks

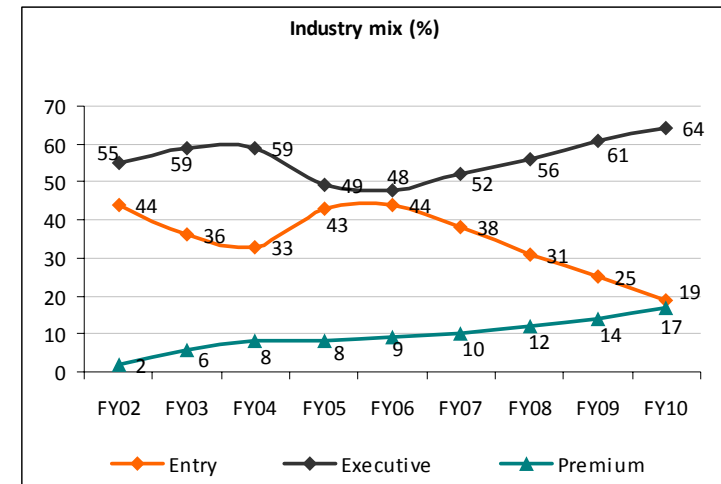
- With nearly 45-50% demand from rural areas, monsoon vagaries remain a concern.
- High interest rate sensitivity of entry level bikes
- Economic slowdown, rising input costs and higher retail fuel prices

Low penetration implies strong growth potential



Source: Company

Share of entry segment on a decline



Source: Company

Passenger vehicles: Income multiplier - the demand driver

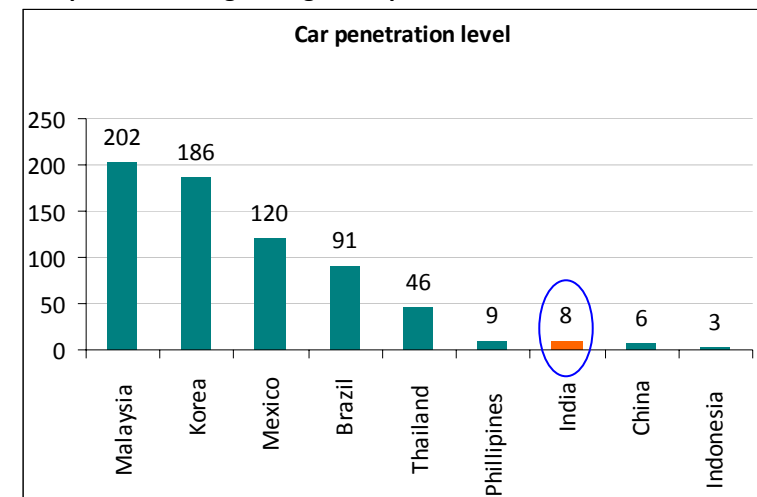
Demand drivers

- Favourable macro economic environment and rising per capita income levels
- Favourable demographics with >50% population below the age of 25 years and India's burgeoning middle class and working population to go up to 68% in 2020 from 63% in FY08
- Increased affordability through reduction in entry-level prices
- Strong demand from semi-urban and rural markets, forming ~15% of overall demand, up from ~8% in FY07
- New offerings, shrinking replacement cycle and strong export demand especially from neighboring countries, Africa and Latin America
- India becoming the 'hub for small car' manufacturing with Suzuki, Nissan, Hyundai among other global majors intending to source cars from their Indian operations
- Low penetration levels – 8 per thousand

Risks

- Rising competitive intensity could lead to shrinking pricing power and impact margin
- Economic slowdown, rising input costs and higher interest rates and fuel prices

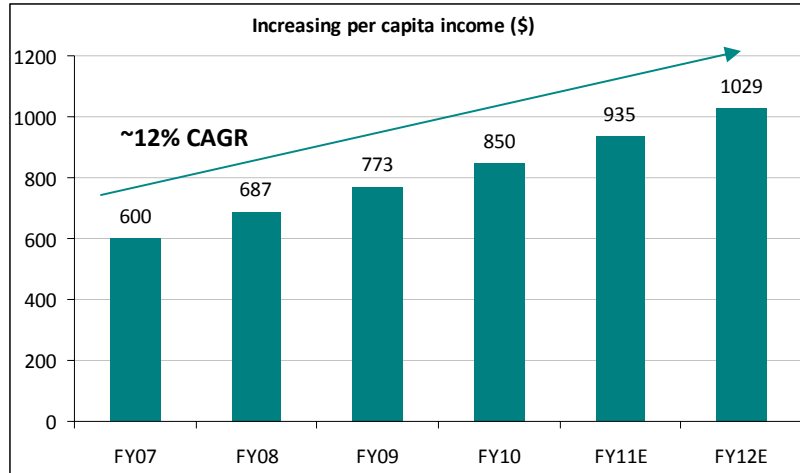
Low penetration signifies growth potential



Source: Company

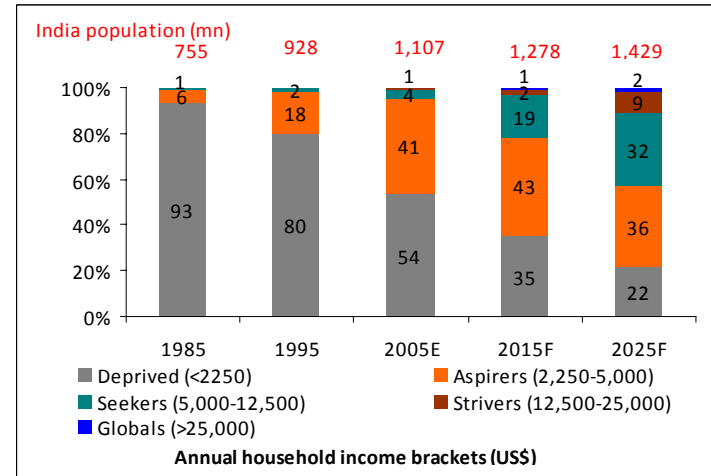
Boosted by favourable demographics

Rising affordability



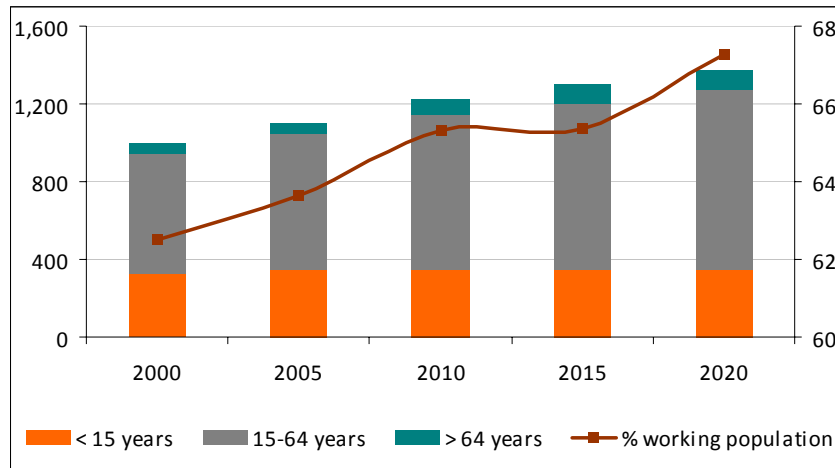
Source: Company

Burgeoning middle class



Source: Company

Rising share of working population



Source: Company

Commercial vehicles: Robust industrial activity driving freight movement

Demand drivers

- Buoyant industrial activity
- Government's continued thrust on road development

Projected investment in roads and bridges during XIth Plan

Roads & Bridges	Total XIth Plan spend (Rs bn)	% share
Centre	1,074	34.2
States	1,000	31.8
Private	1,068	34.0
Total	3,142	100.0

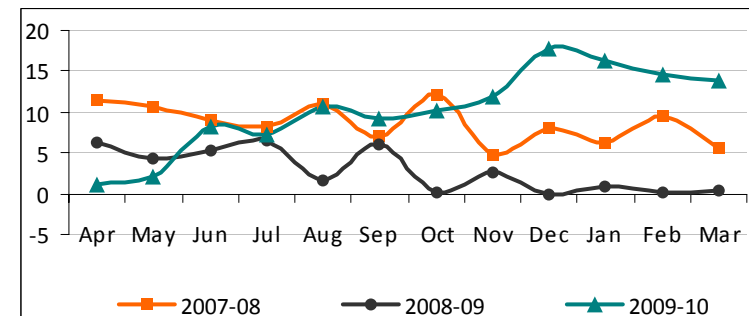
Source: Planning Commission

- Healthy freight environment and firm freight rates supporting truck operator profitability and in turn CV sales, as there is strong correlation between freight rates and CV sales ($r = 0.93$)
- Structural changes with emergence of 'hub-n-spoke' transportation model, especially boosting LCV demand

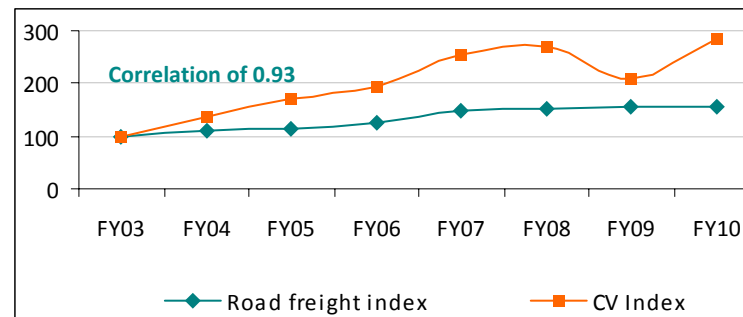
Risks

- Increase in interest rates and financing constraints
- Economic slowdown, rising input costs and higher fuel prices

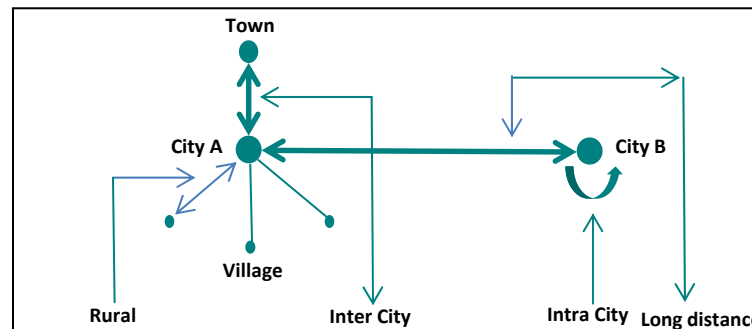
Strong IIP growth (%)



Strong correlation between freight rates and CV sales



Hub-n-spoke model

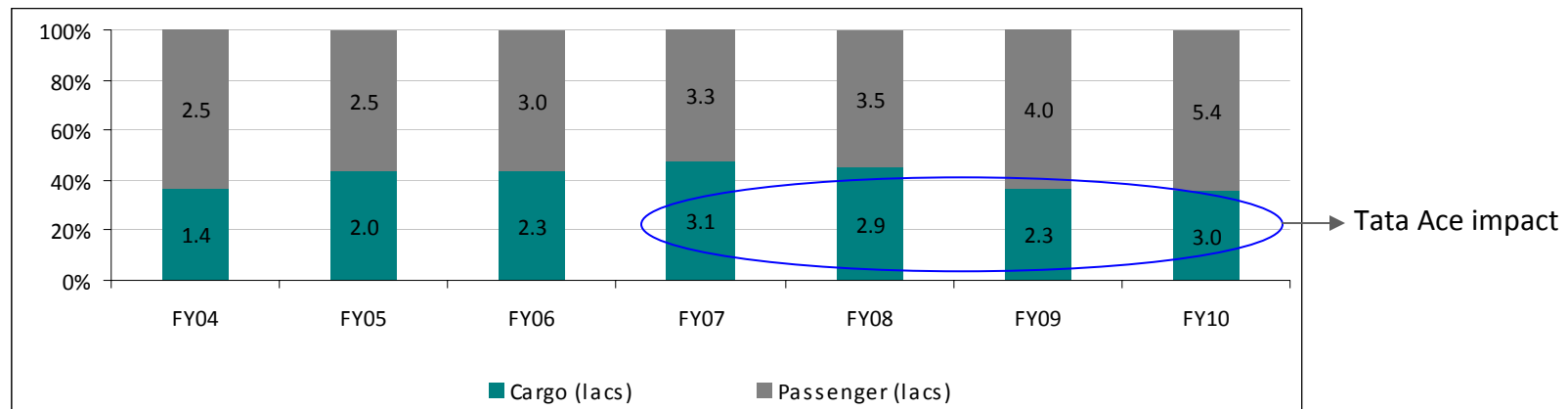


Source: Company, Bloomberg, TCI, IDBI Capital Research

Three wheelers: Trending towards passenger segment

- Three wheeler industry is getting more polarised towards passenger segment, as cargo segment has been significantly impacted post the launch of Tata Ace and the situation is likely to continue going forward. Cargo segment declined by 0.4% CAGR over FY07-10, while passenger segment grew 17.2% over the same period, thereby increasing its share in the 3-wheeler pie to 64% in FY10 from 52% in FY07.

3-wheeler passenger segment pie growing



Source: Company, IDBI Capital Research

- We believe passenger 3-wheeler industry will continue to drive this segment and clock ~10% CAGR over FY10-12 led by the following demand drivers:
 - Strong GDP growth and rising need for mobility
 - In city passenger movement
 - Poor public transport
 - Economic mode of transportation
 - Replacement demand triggered by availability of alternate fuel like diesel and CNG
 - State governments releasing more / doing away with permits

Tractors: Rural policy thrust keeps engine running

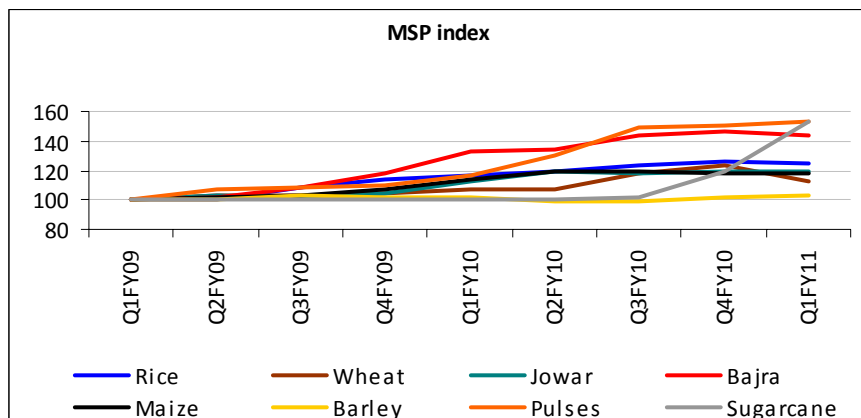
Demand drivers

- Strong rural economy led by government's thrust on agriculture
- Rising MSPs
- NREGA scheme
- Ever-increasing agri credit
- Farm loan waiver

Risks

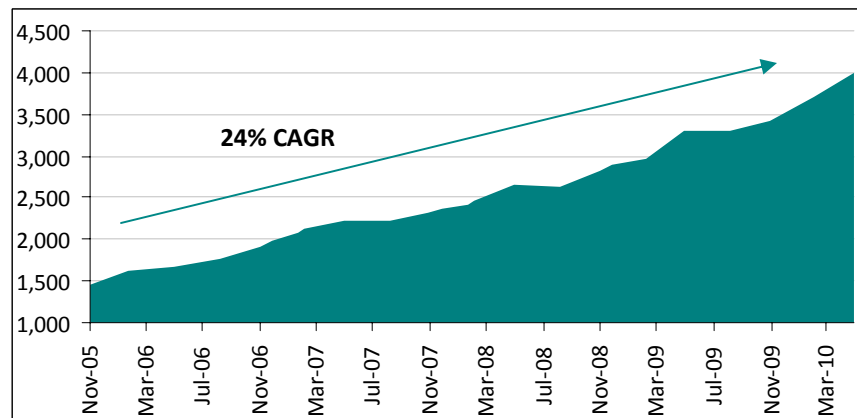
- Monsoon vagaries
- Rising input costs and higher interest rates

Rising MSPs increasing affordability



Source: Bloomberg, IDBI Capital Research

Ever-increasing agricultural credit (Rs bn)



Source: Bloomberg, IDBI Capital Research

Company Section

Ashok Leyland (AL IN)

CMP: Rs76

Mkt cap: Rs92 bn

HOLD

TP: Rs79

Positives priced in...

Financial snapshot

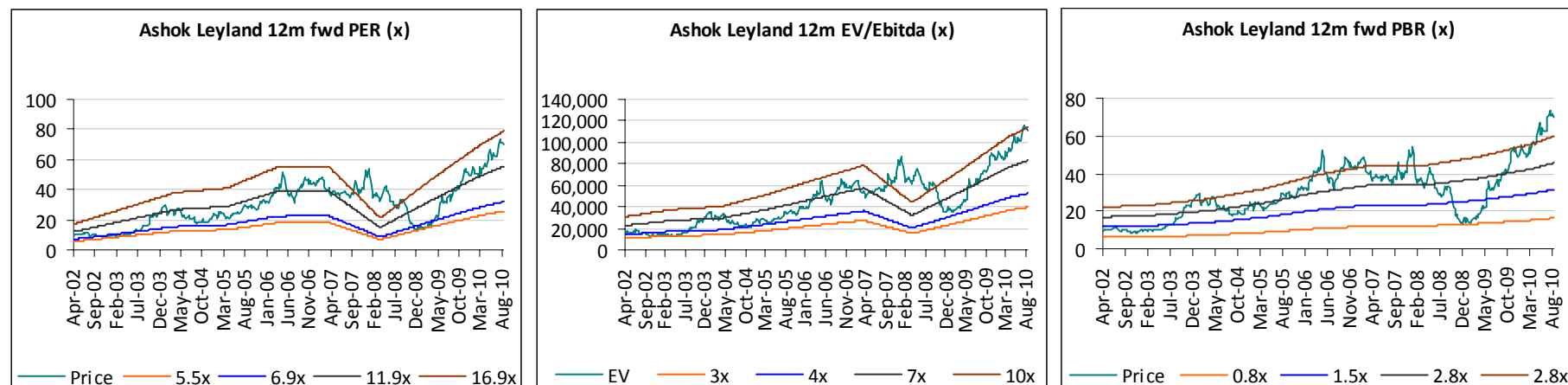
Rs mn	Revenue	EBITDA	EBITDA (%)	Adjusted net profit	EPS (Rs)	P/E (x)	EV/EBITDA (x)
FY09	59,586	4,559	7.3	1,900	1.4	-	-
FY10	72,090	7,552	10.0	4,194	3.2	24.1	14.5
FY11E	100,571	10,872	10.3	5,815	4.4	17.4	10.2
FY12E	119,370	13,306	10.6	7,473	5.6	13.5	8.3

Source: Company, IDBI Capital Research

Robust domestic CV outlook

- Ashok Leyland to benefit from structural shift to higher tonnage commercial vehicles like tractor trailers, multi-axle vehicles and tippers, along with buoyant industrial activity – In Q4FY10, tractor trailers and MAVs grew by 62% and 51% respectively over Q3FY10 as against CV growth of 45% QoQ.
- Pantnagar plant ramp up expected Q2FY11 onwards, with management guidance of production of 8k units in H1FY11 and 12k units in H2FY11. We expect 15k units from Pantnagar in FY11 and expect this plant to expand reach, improve logistics and provide tax benefits.
- Hinduja Leyland Finance (AL's finance arm) has received RBI approval and commenced operations in March 2010. It plans to finance 4k vehicles and disburse Rs 8.5 bn in the first year of operations. We believe this should provide fillip to sales volume.
- JV with Nissan for LCV to start operations from mid CY11 and JV with John Deere for construction equipments to start operations towards end of CY10. We have not factored in these two JVs in our estimates.

Valuation higher than 5-yr median



Source: Bloomberg, IDBI Capital Research

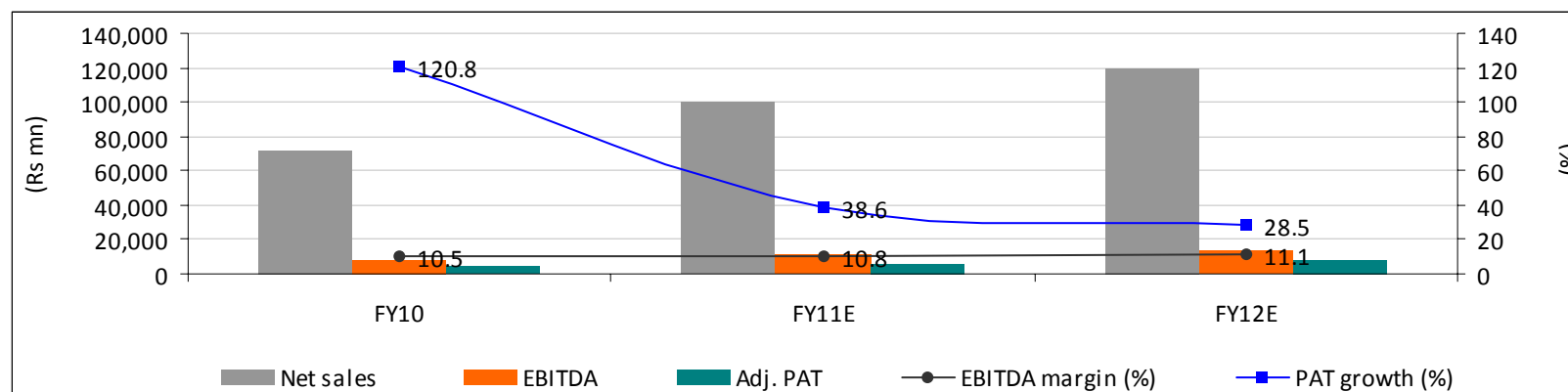
AL is trading higher than last 5-yr valuation on most parameters. Last 5-yr median PER is 12.8x, while it currently trades at ~16x 1-yr forward earnings. Similarly its 5-yr median EV/EBITDA is 7.9x, while it trades at ~10x. We believe valuation should expand for AL, considering strong domestic CV outlook and pick up in the Southern market. However, **valuation at 17.4x FY11E and 13.5x FY12E is not cheap. Initiate with HOLD and price target of Rs79 (14x FY12E), as we see limited upside from these levels.**

Assumptions

(Units)	FY10	FY11E	FY12E
Total Sales	63,933	86,911	99,534
Growth %	17.4	35.9	14.5
MDV Passenger	18,452	22,550	25,551
Growth %	(6.6)	22.2	13.3
MDV Goods	44,384	63,446	72,963
Growth %	33.0	42.9	15.0
LCV	1,097	914	1,020
Growth %	(18.7)	(16.7)	11.6
Realisation (Rs)	1,133,172	1,162,516	1,205,350
Growth %	3.2	2.6	3.7
EBITDA margin (%)	10.4	11.0	11.2

Source: Company, IDBI Capital Research

Strong earnings growth led by robust CV outlook



Source: Company, IDBI Capital Research

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Net sales	59,586	72,090	100,571	119,370
<i>growth (%)</i>	-22.9	21.0	39.5	18.7
Operating expenses	-55,251	-64,895	-90,163	-106,668
EBITDA	4,559	7,552	10,872	13,306
<i>growth (%)</i>	-43.6	65.6	44.0	22.4
Depreciation	-1,784	-2,041	-2,602	-2,885
EBIT	2,775	5,511	8,270	10,421
Interest paid	-1,603	-1,019	-1,409	-1,525
Other income	695	377	407	445
Pre-tax profit	1,867	4,869	7,268	9,341
Tax	-185	-1,210	-1,454	-1,868
Effective tax rate (%)	9	22	20	20
Net profit	1,900	4,194	5,815	7,473
Adjusted net profit	1,900	4,194	5,815	7,473
<i>growth (%)</i>	-59.5	120.8	38.6	28.5
<i>Shares o/s (mn nos)</i>	1,330.3	1,330.3	1,330.3	1,330.3

Balance Sheet

Y/E 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Net fixed assets	43,975	48,110	54,093	55,009
Investments	2,635	3,262	5,886	8,187
Other non-curr assets	0	0	0	0
Current assets	31,656	41,397	39,109	46,443
Inventories	13,300	16,382	12,456	14,791
Sundry Debtors	9,580	10,221	14,254	16,925
Cash and Bank	881	5,189	1,729	2,813
Loans and advances	7,895	9,605	10,670	11,914
Total assets	78,266	92,769	99,089	109,639
Shareholders' funds	34,681	36,511	39,989	45,130
Share capital	1,330	1,330	1,330	1,330
Reserves & surplus	33,447	35,233	38,713	43,851
Total Debt	19,581	22,039	20,520	20,739
Secured loans	129	466	71	71
Unsecured loans	19,453	21,573	20,449	20,668
Other liabilities	22,216	26,650	25,131	25,350
Curr Liab & prov	21,369	29,608	33,969	39,160
Current liabilities	21,369	29,608	33,969	39,160
Provisions	0	0	0	0
Total liabilities	43,585	56,257	59,100	64,509
Total equity & liabilities	78,266	92,769	99,089	109,639
Book Value (Rs)	16	17	20	24

Source: Company, IDBI Capital Research

Financials

Cash Flow Statement

Y/E 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Pre-tax profit	2,084	5,404	7,268	9,341
Depreciation	1,372	2,150	2,602	2,885
Tax paid	-76	753	-1,454	-1,868
Chg in working capital	-7,118	2,049	3,181	-1,060
Other operating activities	0	0		0
Cash flow from operations (a)	-3,738	10,355	11,598	9,298
Capital expenditure	-24,799	-6,285	-8,585	-3,800
Chg in investments	-187	-626	-2,625	-2,301
Other investing activities	16,595	0	0	0
Cash flow from investing (b)	-8,391	-6,912	-11,210	-6,101
Equity raised/(repaid)	127	45	-3	3
Debt raised/(repaid)	10,706	2,457	-1,519	219
Dividend (incl. tax)	-2,337	-1,556	-2,327	-2,335
Other financing activities	0	-81	0	0
Cash flow from financing (c)	8,496	865	-3,848	-2,113
Net chg in cash (a+b+c)	-3,633	4,309	-3,460	1,084

Financial Ratios

Y/E 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Adj EPS (Rs)	1.4	3.2	4.4	5.6
Adj EPS growth (%)	-59.5	120.8	38.6	28.5
EBITDA margin (%)	7.3	10.0	10.3	10.6
Pre-tax margin (%)	3.5	7.5	7.2	7.8
ROE (%)	6.8	11.8	15.2	17.6
ROCE (%)	7.7	9.8	13.5	16.0
Turnover & Leverage ratios (x)				
Asset turnover (x)	0.9	0.8	1.0	1.1
Leverage factor (x)	2.4	2.4	2.5	2.5
Net margin (%)	3.2	5.8	5.8	6.3
Net Debt/Equity (x)	0.5	0.5	0.5	0.4
Working Capital & Liquidity ratio				
Inventory days	81.5	82.9	45.2	45.2
Receivable days	58.7	51.7	51.7	51.8
Payable days	117.0	131.1	112.1	112.5

Valuation

Y/E 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
PER (x)	53.2	24.1	17.4	13.5
Price/Book value (x)	4.8	4.4	3.8	3.2
PCE (x)	27.4	16.2	12.0	9.8
EV/Net sales (x)	1.9	1.5	1.1	0.9
EV/EBITDA (x)	24.4	14.5	10.2	8.3
Dividend Yield (%)	1.3	2.0	2.0	2.0

Source: Company, IDBI Capital Research

Bajaj Auto (BJAUT IN)

CMP: Rs1,470

Mkt cap: Rs425 bn

HOLD

TP: Rs1,402

Re'discover'ing glory...

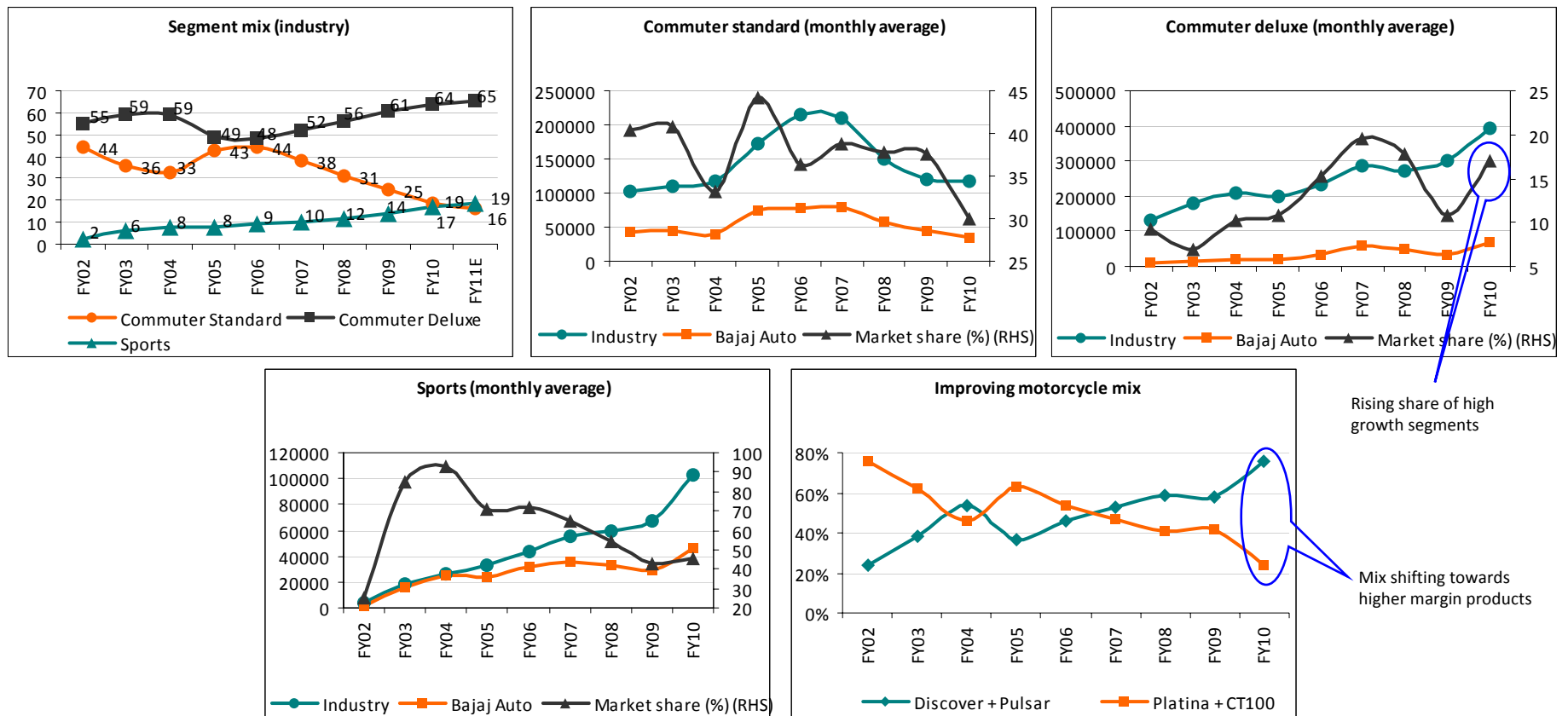
Financial snapshot

Rs mn	Revenue	EBITDA	EBITDA (%)	Adjusted net profit	EPS (Rs)	P/E (x)	EV/EBITDA (x)
FY09	84,369	12,006	14.2	8,011	27.7	-	-
FY10	115,085	25,895	22.5	18,046	62.4	23.6	16.1
FY11E	151,869	32,006	21.1	22,822	78.9	18.6	13.0
FY12E	177,539	37,824	21.3	27,036	93.4	15.7	10.9

Source: Company, IDBI Capital Research

Play on consumer up-trading

- Play on urban consumption, rising aspirations and consumer up-trading (consumers' increasing preference for bikes with better performance and style), with two brand strategy and focus on commuter Deluxe (Discover range) and sports (Pulsar range) segments.
- Getting its act together with right products (Discover 100, 150, Pulsar 135, 220) at right price points in right segments (**strong presence in high growth segments like Commuter deluxe and sports**)

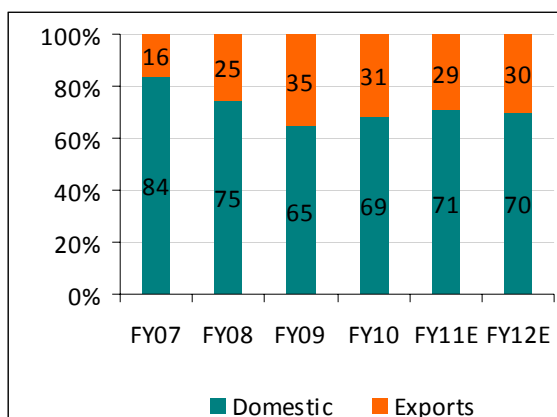


Source: Company, IDBI Capital Research

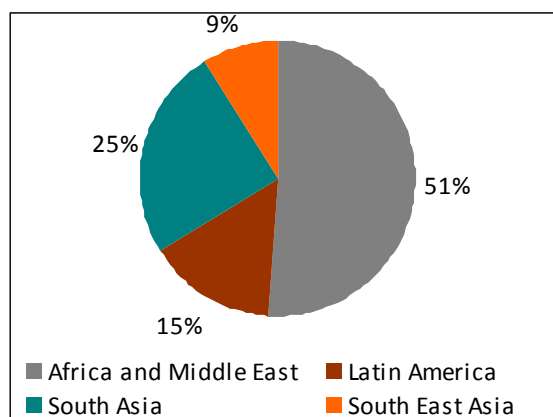
Exports traction on...

- BJAUT's exports have shown strong traction led by volumes from neighbouring countries like Sri Lanka, Bangladesh, South East Asia, and increasing focus on Africa and Latin America. The company has recently entered Uganda and is looking at deepening penetration in existing markets through establishing exclusive sales network. Moreover, it is also looking at entering Brazil and China over the next two years, which should provide significant boost to export volumes.
- Management has recently upped its exports guidance to 1.1 mn units from 1 mn units at the start of FY11, which reflects its confidence on the expected exports traction.
- The management expects export volumes to double every five years.

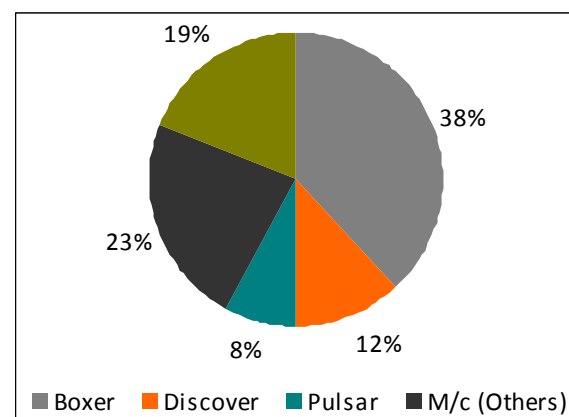
Geography mix



Exports mix (FY10)



Product mix (FY10)

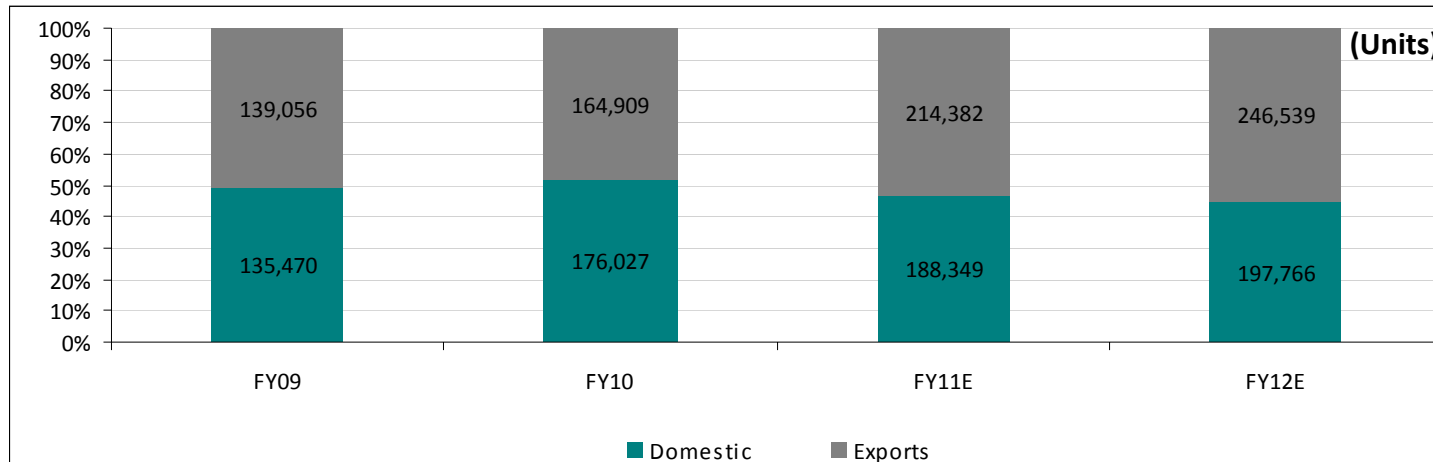


Source: Company, IDBI Capital Market Services

3-wheelers: Passenger exports to drive growth

- We expect passenger segment to drive three wheeler growth for BJAUT led by focus on people movement in both in-city and rural segments in the domestic market, and tapping newer export markets and enhancing penetration in existing ones (Sri Lanka, Nigeria and Egypt have been driving exports growth).
- Moreover, with few states releasing new permits (for instance, Tamil Nadu has recently issued ~8,000 new permits), domestic three wheeler passenger growth should get a boost.
- We expect exports share in 3-wheeler volume to go up to 55.5% in FY12 from 48.4% in FY10.

Exports to drive growth



Source: Company, IDBI Capital Research

Strong product mix leading to superior profitability; Indonesia to remain in red

- We expect BJAUT to remain the most profitable auto OEM with favourable product mix (higher share of high margin segments like 3-wheelers, exports, Pulsar, spare parts), lower spending on promotions and discounts and increasing share of production at Pantnagar.

Segment	Our estimates		Management estimate
	Revenue share (%)	Margin (%)	2 years CAGR (%)
Exports	31	23	20
Domestic 3-w	6	>30	10
Pulsar	22	>20	35
Spare parts	7	>30	25
Discover 100 + 150	26	12-13	30
Others (Platina, etc.)	8	<10	flat

Source: Company, IDBI Capital Research

- We expect Indonesian operations to take at least two years to break even as we believe Indonesia is a tough market with presence of established players like Honda, Yamaha and Suzuki and hence BJAUT's volume traction will only be gradual.

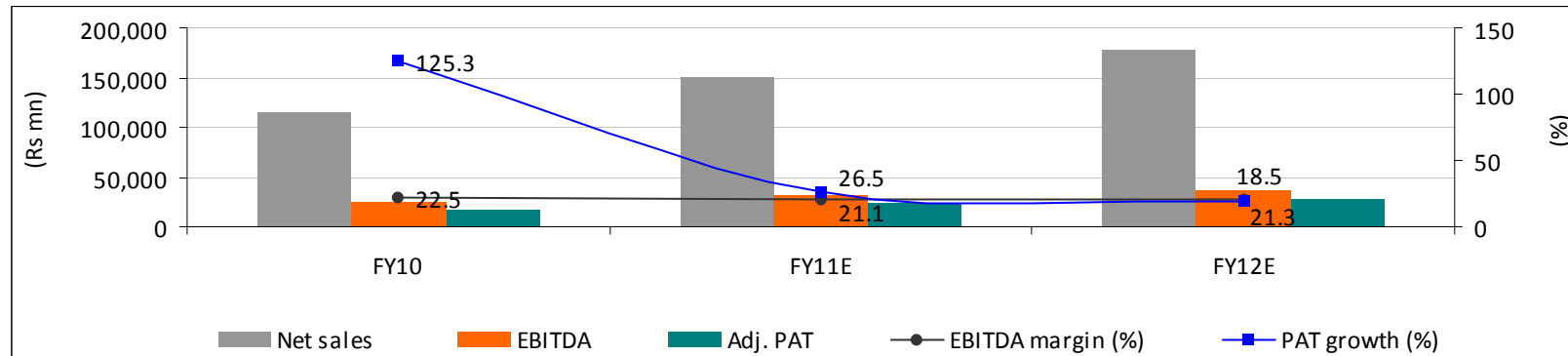
We are positive on BJAUT's growth prospects led by market share gains and strong earnings visibility. However, with valuation at 15.7x FY12E, we believe most positives are priced in and we initiate coverage with HOLD and target price of Rs1,402 (15x FY12E).

Assumptions

(Units)	FY10	FY11E	FY12E
Total volumes	2,852,632	3,805,429	4,306,861
Growth (%)	30.0	33.4	13.2
Motorcycles	2,506,845	3,400,818	3,861,052
Growth (%)	31.4	35.7	13.5
Scooters	4,851	1,880	1,504
Growth (%)	(58.8)	(61.3)	(20.0)
3-wheelers	340,936	402,731	444,305
Growth (%)	24.2	18.1	10.3
Realisation	41,767	41,220	42,577
Growth (%)	4.0	(1.3)	3.3
EBITDA margin (%)	22.5	21.1	21.3

Source: Company, IDBI Capital Research

Successful launches, superior mix lend strong earnings visibility



Source: Company, IDBI Capital Research

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Net sales	84,369	115,085	151,869	177,539
<i>growth (%)</i>	-2.6	36.4	32.0	16.9
Operating expenses	-76,075	-93,250	-124,853	-145,551
EBITDA	12,006	25,895	32,006	37,824
<i>growth (%)</i>	-7.5	106.6	22.8	17.9
Depreciation	-1,298	-1,365	-1,443	-1,542
EBIT	10,708	24,531	30,563	36,283
Interest paid	-210	-60	-60	-60
Other income	1,134	1,255	1,331	1,490
Pre-tax profit	11,632	25,726	31,833	37,713
Tax	-3,621	-7,680	-9,011	-10,677
Effective tax rate (%)	36	31	28	28
Net profit	6,545	17,027	22,822	27,036
Adjusted net profit	8,011	18,046	22,822	27,036
<i>growth (%)</i>	-3.3	125.3	26.5	18.5
<i>Shares o/s (mn nos)</i>	289.4	289.4	289.4	289.4

Balance Sheet

Y/E 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Net fixed assets	15,644	15,211	15,948	16,586
Investments	14,694	39,665	47,767	65,990
Other non-curr assets	1,606	1,901	1,344	1,065
Current assets	19,444	16,361	25,675	31,421
Inventories	3,388	4,462	6,446	7,536
Sundry Debtors	3,587	2,728	4,297	5,024
Cash and Bank	4,760	1,564	6,239	9,791
Loans and advances	6,453	6,547	6,613	6,686
Total assets	51,388	73,139	90,734	115,061
Shareholders' funds	16,864	29,283	45,142	65,157
Share capital	2,894	2,894	2,894	2,894
Reserves & surplus	15,803	26,390	42,249	62,264
Total Debt	15,700	13,386	14,049	14,745
Secured loans	13,215	13,256	13,919	14,615
Unsecured loans	2,485	130	130	130
Other liabilities	17,348	15,304	15,967	16,663
Curr Liab & prov	17,176	28,551	29,624	33,241
Current liabilities	15,704	26,984	27,837	31,203
Provisions	1,473	1,568	1,787	2,038
Total liabilities	34,524	43,855	45,591	49,904
Total equity & liabilities	51,388	73,139	90,734	115,061
Book Value (Rs)	63	106	161	230

Source: Company, IDBI Capital Research

Financials

Cash Flow Statement

Y/E 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Pre-tax profit	10,166	24,707	31,833	37,713
Depreciation	818	918	1,443	1,542
Tax paid	-3,817	-7,578	-8,454	-10,398
Chg in working capital	-555	8,111	-3,565	1,401
Other operating activities	0	308	-214	-251
Cash flow from operations (a)	6,612	26,466	21,044	30,007
Capital expenditure	-3,428	-485	-2,180	-2,180
Chg in investments	4,165	-24,143	-5,202	-17,223
Other investing activities	-3,679	2,013	-2,983	-1,095
Cash flow from investing (b)	-2,942	-22,615	-10,365	-20,497
Equity raised/(repaid)	-1,833	1,833	0	0
Debt raised/(repaid)	2,357	-2,315	663	696
Dividend (incl. tax)	-3,385	-3,724	-6,749	-6,748
Other financing activities	0	0	0	0
Cash flow from financing (c)	-2,862	-4,206	-6,086	-6,052
Net chg in cash (a+b+c)	808	-355	4,593	3,457

Financial Ratios

Y/E 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Adj EPS (Rs)	27.7	62.4	78.9	93.4
Adj EPS growth (%)	-3.3	125.3	26.5	18.5
EBITDA margin (%)	14.2	22.5	21.1	21.3
Pre-tax margin (%)	12.0	21.5	21.0	21.2
ROE (%)	48.9	78.2	61.3	49.0
ROCE (%)	35.2	63.0	58.5	51.5
Turnover & Leverage ratios (x)				
Asset turnover (x)	1.7	1.8	1.9	1.7
Leverage factor (x)	3.0	2.7	2.2	1.9
Net margin (%)	9.5	15.7	15.0	15.2
Net Debt/Equity (x)	0.8	0.4	0.2	0.1
Working Capital & Liquidity ratio				
Inventory days	14.7	14.2	15.5	15.5
Receivable days	15.5	8.7	10.3	10.3
Payable days	38.4	61.5	55.1	55.1

Valuation

Y/E 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
PER (x)	53.1	23.6	18.6	15.7
Price/Book value (x)	23.2	13.8	9.1	6.4
PCE (x)	45.7	21.9	17.5	14.9
EV/Net sales (x)	5.2	3.8	2.9	2.4
EV/EBITDA (x)	33.5	16.1	13.0	10.9
Dividend Yield (%)	0.7	1.4	1.4	1.4

Source: Company, IDBI Capital Research

Hero Honda (HH IN)

CMP: Rs1,722

Mkt cap: Rs344 bn

HOLD

TP: Rs1,856

Honda split concerns overdone...

Financial snapshot

Rs mn	Revenue	EBITDA	EBITDA (%)	Adjusted net profit	EPS (Rs)	P/E (x)	EV/EBITDA (x)
FY09	123,191	17,291	14.0	12,818	64.2	-	-
FY10	158,220	27,319	17.3	22,318	111.8	15.4	10.8
FY11E	183,107	28,301	15.5	23,166	116.0	14.8	10.5
FY12E	208,793	32,560	15.6	26,474	132.6	13.0	8.6

Source: Company, IDBI Capital Research

Low earnings expectations

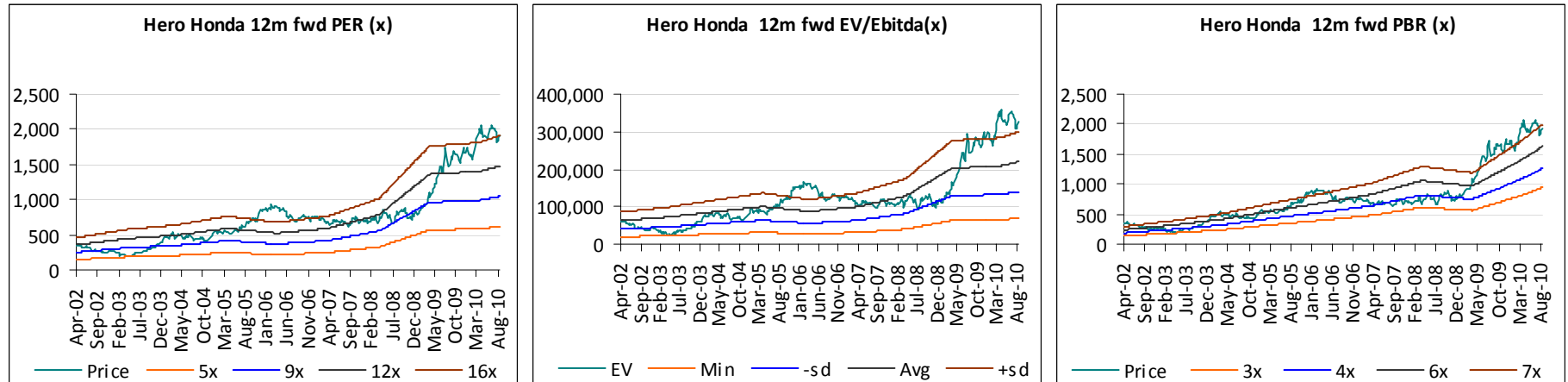
Strong demand momentum...

- Play on India's rural growth story with ~45% volume coming from the fast growing rural and semi-urban markets.
- Continue to ride on strong brand equity of Splendor and Passion, with two models contributing ~75% of FY10 volume.
- Leadership position to sustain with wide product portfolio and expected 5-6 new models/variants over the next 12 months.
- Haridwar plant ramp up to bring in tax benefits and help maintain healthy margin – the plant currently operates at 75% capacity and HH aims to reach full capacity by FY11 end.
- Strong on the ground demand (dealer inventories reasonable at ~30 days)
- Less dependence on financing – 15% vs. 25-30% for the industry.

...however

- Threat of market share loss remains as competitors' products show strong volume traction (Q1FY11 domestic motorcycle market share at 57.4% vs. 64.8% in Q1FY10)
- Exports upside limited with restricted access to larger South East Asian markets, where parent Honda is already present.
- Uncertainty over the future of JV with Honda Group is a major concern, especially as Hero Group lacks in-house R&D capabilities. Nonetheless, we believe these concerns are overdone, considering HH's strong distribution network, well entrenched brands, profitable leadership and the fact that HH would have gained significant technical knowhow from its over two decades long association with Honda.

Valuation close to 5-yr median



Source: Bloomberg, IDBI Capital Research

HH is trading close to last 5-yr valuation on most parameters. Last 5-yr median PER is 13.9x, while it currently trades at ~14x 1-yr forward earnings. Similarly its 5-yr median EV/EBITDA is 5.4x, while it trades at 5.5x.

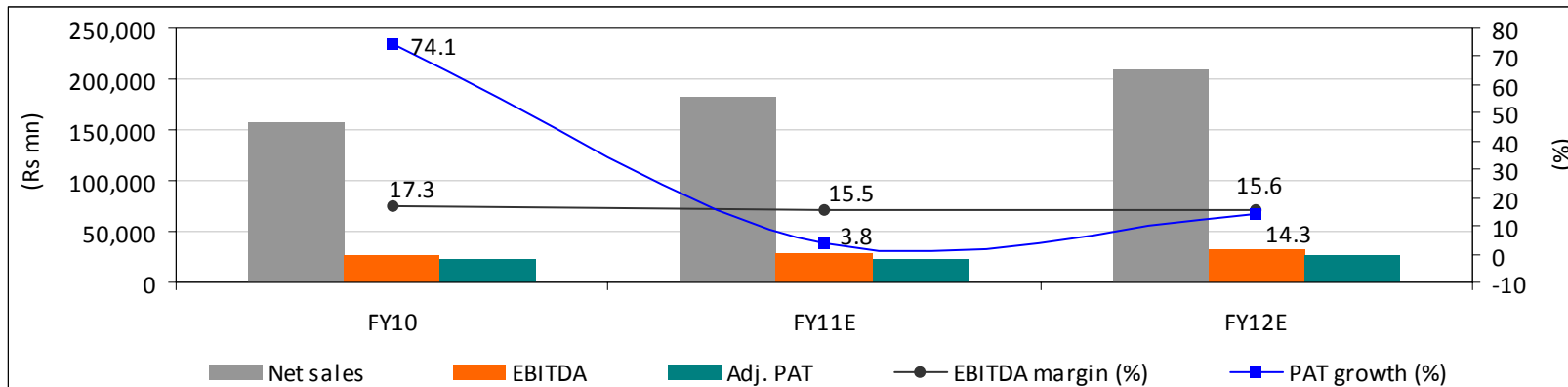
Valuation at 14.8x FY11E and 13x FY12E is not cheap considering expected lower earnings CAGR of 9% over FY10-12E. Initiate with HOLD and price target of Rs1,856 (14x FY12E). We believe that current valuation reflects the split led concerns partly (HH has corrected more than 15% from its recent peak). Any further correction in our view, would provide an opportunity for investors to take advantage of these overdone concerns. At this juncture, the risk reward is favourably shifting towards HH.

Assumptions

(Units)	FY10	FY11E	FY12E
Total volumes	4,600,130	5,157,570	5,687,790
Growth (%)	23.6	12.1	10.3
Motorcycles	4,385,858	4,868,302	5,355,133
Growth (%)	23.0	11.0	10.0
Scooters	214,272	289,267	332,657
Growth (%)	37.2	35.0	15.0
Realisation	31,947	32,889	33,871
Growth (%)	3.4	2.9	3.0
EBITDA margin (%)	17.3	15.5	15.6

Source: Company, IDBI Capital Research

Steady state to continue



Source: Company, IDBI Capital Research

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Net sales	123,191	158,220	183,107	208,793
<i>growth (%)</i>	19.2	28.4	15.7	14.0
Operating expenses	-105,901	-130,900	-154,806	-176,233
EBITDA	17,291	27,319	28,301	32,560
<i>growth (%)</i>	24.9	54.0	3.3	14.0
Depreciation	-1,807	-1,915	-2,275	-2,511
EBIT	15,484	25,405	26,025	30,049
Interest paid	-25	-21	-21	-21
Other income	2,356	2,933	2,954	3,064
Pre-tax profit	17,815	28,317	28,958	33,092
Tax	-4,997	-5,999	-5,792	-6,618
Effective tax rate (%)	28	21	20	20
Net profit	12,818	22,318	23,166	26,474
Adjusted net profit	12,818	22,318	23,166	26,474
<i>growth (%)</i>	32.6	74.1	3.8	14.3
<i>Shares o/s (mn nos)</i>	199.7	199.7	199.7	199.7

Balance Sheet

Y/E 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Net fixed assets	16,942	17,068	17,593	16,882
Investments	33,688	39,258	43,746	43,746
Other non-curr assets	87	79	79	79
Current assets	10,024	28,645	25,667	48,652
Inventories	3,268	4,364	5,496	6,267
Sundry Debtors	1,499	1,084	1,254	1,430
Cash and Bank	2,196	19,072	16,811	38,846
Loans and advances	3,060	4,124	2,105	2,108
Total assets	60,740	85,049	87,084	109,358
Shareholders' funds	38,008	34,650	50,808	70,272
Share capital	399	399	399	399
Reserves & surplus	37,608	34,251	50,408	69,873
Total Debt	785	660	660	660
Secured loans	-	-	-	-
Unsecured loans	785	660	660	660
Other liabilities	2,316	2,267	2,350	2,433
Curr Liab & prov	20,417	48,132	33,926	36,652
Current liabilities	19,900	47,714	33,493	36,154
Provisions	517	418	433	498
Total liabilities	22,732	50,399	36,276	39,085
Total equity & liabilities	60,740	85,049	87,084	109,358
Book Value (Rs)	190	174	254	352

Source: Company, IDBI Capital Research

Financials

Cash Flow Statement

Y/E 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Pre-tax profit	17,815	28,317	28,958	33,092
Depreciation	1,601	1,496	2,275	2,511
Tax paid	-4,866	-5,622	-5,971	-6,536
Chg in working capital	2,384	4,975	5,140	1,777
Other operating activities	0	0	0	0
Cash flow from operations (a)	16,934	29,166	30,403	30,844
Capital expenditure	-3,056	-1,623	-2,800	-1,800
Chg in investments	-8,019	-5,570	-4,488	0
Other investing activities	0	1	0	0
Cash flow from investing (b)	-11,075	-7,192	-7,288	-1,800
Equity raised/(repaid)	0	0	0	0
Debt raised/(repaid)	-535	-125	0	0
Dividend (incl. tax)	-4,439	-4,973	-25,376	-7,009
Other financing activities	0	0	0	0
Cash flow from financing (c)	-4,974	-5,097	-25,376	-7,009
Net chg in cash (a+b+c)	885	16,877	-2,261	22,035

Financial Ratios

Y/E 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Adj EPS (Rs)	64.2	111.8	116.0	132.6
Adj EPS growth (%)	32.6	74.1	3.8	14.3
EBITDA margin (%)	14.0	17.3	15.5	15.6
Pre-tax margin (%)	14.5	17.9	15.8	15.8
ROE (%)	37.8	61.4	54.2	43.7
ROCE (%)	48.3	72.5	63.7	52.2
Turnover & Leverage ratios (x)				
Asset turnover (x)	2.2	2.2	2.1	2.1
Leverage factor (x)	1.6	2.0	2.0	1.6
Net margin (%)	10.4	14.1	12.7	12.7
Net Debt/Equity (x)	0.0	-0.5	-0.3	-0.5
Working Capital & Liquidity ratio				
Inventory days	9.7	10.1	11.0	11.0
Receivable days	4.4	2.5	2.5	2.5
Payable days	24.2	31.0	35.3	35.4

Valuation

Y/E 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
PER (x)	26.8	15.4	14.8	13.0
Price/Book value (x)	9.0	9.9	6.8	4.9
PCE (x)	23.5	14.2	13.5	11.9
EV/Net sales (x)	2.8	2.1	1.8	1.5
EV/EBITDA (x)	17.4	10.8	10.5	8.6
Dividend Yield (%)	1.2	6.4	1.7	1.7

Source: Company, IDBI Capital Research

Maruti Suzuki (MSIL IN)

CMP: Rs1,369

Mkt cap: Rs411 bn

HOLD

TP: Rs1,309

Royalty, competition...Bane for now

Financial snapshot

Rs mn	Revenue	EBITDA	EBITDA (%)	Adjusted net profit	EPS (Rs)	P/E (x)	EV/EBITDA (x)
FY09	206,838	18,600	9.0	12,187	42.2	-	-
FY10	293,632	37,187	12.7	24,976	86.4	15.8	9.4
FY11E	350,636	36,297	10.4	23,613	81.7	16.8	9.3
FY12E	396,878	41,545	10.5	27,023	93.5	14.6	6.5

Source: Company, IDBI Capital Research

Royalty blues worsen margin profile

Well placed to maintain dominance in the domestic market...

- Incumbent advantage difficult to dislodge given immense customer goodwill, unmatched reach and strong product pipeline
- Strong track record of successful launches like Swift, D'zire, Ritz, Eeco, among others
- Key beneficiary of strong demand momentum across car segments, with significant presence in most passenger vehicle segments

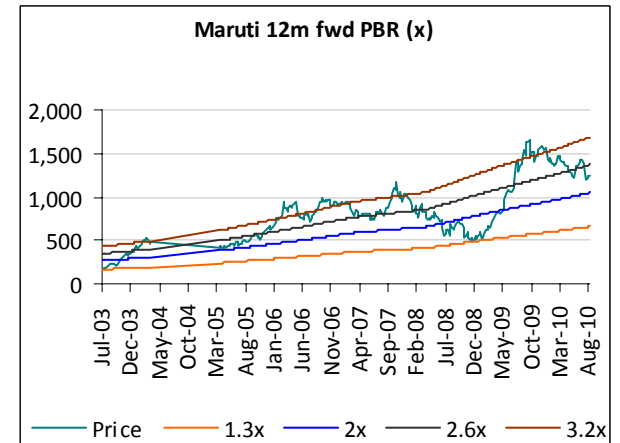
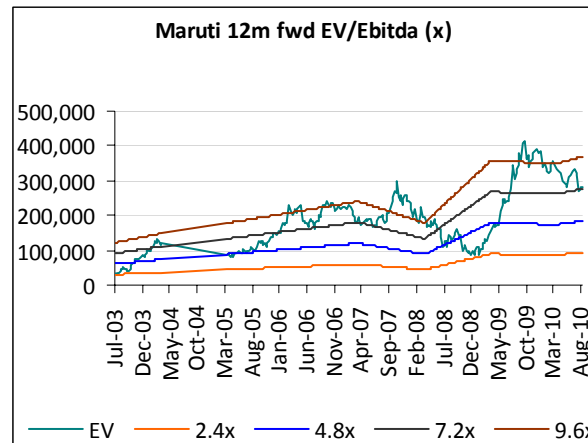
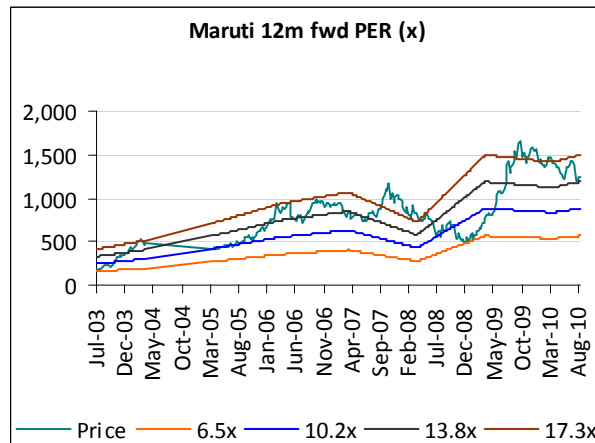
Indian operations gaining prominence for parent Suzuki...

- Increasing R&D focus in India with made in India models being launched
- Maruti's profitability was double that of Suzuki consolidated in FY10
- Supplier of Pixo (A-star) to Nissan for European markets
- Plans to reduce exports dependence on Euro zone by adding geographies such as Australia, South Africa, Chile, Saudi Arabia and Africa, among others

...however margin pressures likely to continue

- Increasing competitive intensity especially in compact car segment to reduce pricing power and hence impact margin. We expect structural downward shift in profitability of most car players.
- Structural hike in royalty outgo (~5% of revenue vs. 3.5% earlier) to worsen margin profile further.
- Exports profitability to be lower on strengthening INR and drop in exports to Europe, where it had better realisation.

Valuation higher than 5-yr median; however outlook weak



Source: Bloomberg, IDBI Capital Research

MSIL is trading close to last 5-yr valuation on most parameters. Last 5-yr median PER is 14.9x, while it currently trades at ~16x 1-yr forward earnings. Similarly its 5-yr median EV/EBITDA is 8.3x, while it trades at ~8x. However, we believe MSIL deserves lower valuation considering margin concerns and structural hike in royalty outgo.

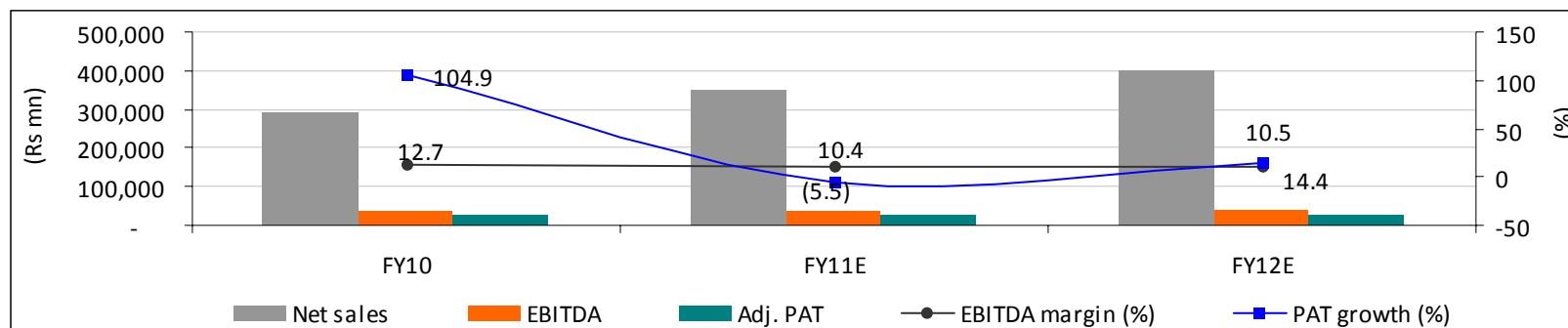
Valuation at 16.8x FY11E and 14.6x FY12E. Initiate with HOLD and price target of Rs1,309 (14x FY12E).

Assumptions

(Units)	FY10	FY11E	FY12E
Total volumes	1,018,365	1,164,786	1,280,913
Growth (%)	28.5	14.4	10.0
Domestic	870,790	1,021,638	1,130,608
Growth (%)	20.6	17.3	10.7
Exports	147,575	143,148	150,305
Growth (%)	109.6	(3.0)	5.0
Realisation	288,337	301,031	309,840
Growth (%)	10.5	4.4	2.9
EBITDA margin (%)	12.7	10.4	10.5

Source: Company, IDBI Capital Research

Margin pressures to keep earnings growth subdued



Source: Company, IDBI Capital Research

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Net sales	206,838	293,632	350,636	396,878
<i>growth (%)</i>	<i>14.0</i>	<i>42.0</i>	<i>19.4</i>	<i>13.2</i>
Operating expenses	-188,238	-256,445	-314,340	-355,333
EBITDA	18,600	37,187	36,297	41,545
<i>growth (%)</i>	<i>-23.5</i>	<i>82.9</i>	<i>-2.4</i>	<i>13.1</i>
Depreciation	-7,065	-8,250	-9,368	-10,219
EBIT	11,535	28,937	26,929	31,326
Interest paid	-510	-335	-333	-308
Other income	5,733	7,323	7,137	7,587
Pre-tax profit	16,758	35,925	33,733	38,604
Tax	-4,571	-10,949	-10,120	-11,581
Effective tax rate (%)	27	30	30	30
Net profit	12,187	24,976	23,613	27,023
Adjusted net profit	12,187	24,976	23,613	27,023
<i>growth (%)</i>	<i>-31.6</i>	<i>104.9</i>	<i>-5.5</i>	<i>14.4</i>
<i>Shares o/s (mn nos)</i>	<i>288.9</i>	<i>288.9</i>	<i>288.9</i>	<i>288.9</i>

Balance Sheet

Y/E 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Net fixed assets	49,321	54,123	72,379	78,660
Investments	120	120	120	120
Other non-curr assets	789	836	836	836
Current assets	86,524	109,370	117,844	140,575
Inventories	9,023	12,088	14,288	16,174
Sundry Debtors	9,189	8,099	9,677	10,954
Cash and Bank	51,003	72,628	76,540	96,100
Loans and advances	17,309	16,555	17,340	17,347
Total assets	136,754	164,449	191,179	220,191
Shareholders' funds	93,449	118,351	139,934	164,929
Share capital	1,445	1,445	1,445	1,445
Reserves & surplus	92,004	116,906	138,490	163,485
Total Debt	6,989	8,214	7,179	6,115
Secured loans	1	265	265	265
Unsecured loans	6,988	7,949	6,914	5,850
Other liabilities	11,117	12,724	11,910	10,847
Curr Liab & prov	32,188	33,374	39,335	44,415
Current liabilities	32,188	33,374	39,335	44,415
Provisions	0	0	0	0
Total liabilities	43,305	46,098	51,245	55,262
Total equity & liabilities	136,754	164,449	191,179	220,191
Book Value (Rs)	323	410	484	571

Source: Company, IDBI Capital Research

Financials

Cash Flow Statement

Y/E 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Pre-tax profit	16,758	35,925	33,733	38,604
Depreciation	6,610	7,322	9,368	10,219
Tax paid	-4,310	-10,007	-11,067	-11,435
Chg in working capital	-2,031	-1,480	2,560	1,764
Other operating activities	0	0	0	0
Cash flow from operations (a)	17,027	31,760	34,593	39,152
Capital expenditure	-15,603	-12,124	-27,624	-16,500
Chg in investments	0	0	0	0
Other investing activities	20,074	-40,033	7,930	0
Cash flow from investing (b)	4,471	-52,157	-19,694	-16,500
Equity raised/(repaid)	0	0	0	0
Debt raised/(repaid)	-2,013	1,225	-1,035	-1,065
Dividend (incl. tax)	-1,691	-1,183	-2,021	-2,028
Other financing activities	-1,709	1,947	-1	0
Cash flow from financing (c)	-5,414	1,989	-3,057	-3,093
Net chg in cash (a+b+c)	16,085	-18,408	11,842	19,560

Financial Ratios

Y/E 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Adj EPS (Rs)	42.2	86.4	81.7	93.5
Adj EPS growth (%)	-31.6	104.9	-5.5	14.4
EBITDA margin (%)	9.0	12.7	10.4	10.5
Pre-tax margin (%)	8.1	12.2	9.6	9.7
ROE (%)	13.7	23.6	18.3	17.7
ROCE (%)	17.1	30.8	24.1	23.8
Turnover & Leverage ratios (x)				
Asset turnover (x)	1.6	1.9	2.0	1.9
Leverage factor (x)	1.5	1.4	1.4	1.3
Net margin (%)	5.9	8.5	6.7	6.8
Net Debt/Equity (x)	-0.1	0.1	0.0	-0.5
Working Capital & Liquidity ratio				
Inventory days	15.9	15.0	14.9	14.9
Receivable days	16.2	10.1	10.1	10.1
Payable days	49.8	33.0	35.0	35.0

Valuation

Y/E 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
PER (x)	32.5	15.8	16.8	14.6
Price/Book value (x)	4.2	3.3	2.8	2.4
PCE (x)	20.5	11.9	12.0	10.6
EV/Net sales (x)	1.9	1.4	1.2	0.8
EV/EBITDA (x)	16.4	9.4	9.3	6.5
Dividend Yield (%)	0.3	0.4	0.4	0.4

Source: Company, IDBI Capital Research

Mahindra & Mahindra (MM IN)

CMP: Rs670

Mkt cap: Rs388 bn

BUY

TP: Rs848

Safe play on robust rural economy...

Financial snapshot

Rs mn	Revenue	EBITDA	EBITDA (%)	Adjusted net profit	EPS (Rs)	P/E (x)	EV/EBITDA (x)
FY09	130,532	10,518	8.1	8,309	16.2	-	-
FY10	185,296	29,033	15.7	19,970	35.9	18.6	12.2
FY11E	219,045	33,479	15.3	24,284	42.2	15.9	10.5
FY12E	263,309	40,487	15.4	29,061	49.7	13.5	8.5

Source: Company, IDBI Capital Research

Robust core business

Farm Equipment

- **Play on buoyant rural economy** and pro agri. government initiatives like farm loan waiver, rising MSPs, NREGA scheme, among others, with domestic tractor business expected to grow at 11% CAGR over FY10-12E.
- **Exports boost** likely on gradual global recovery and strong focus on growing international business in US, China, Australia and Iran.
- Inventory at normal levels of three weeks led by strong on-the-ground demand.

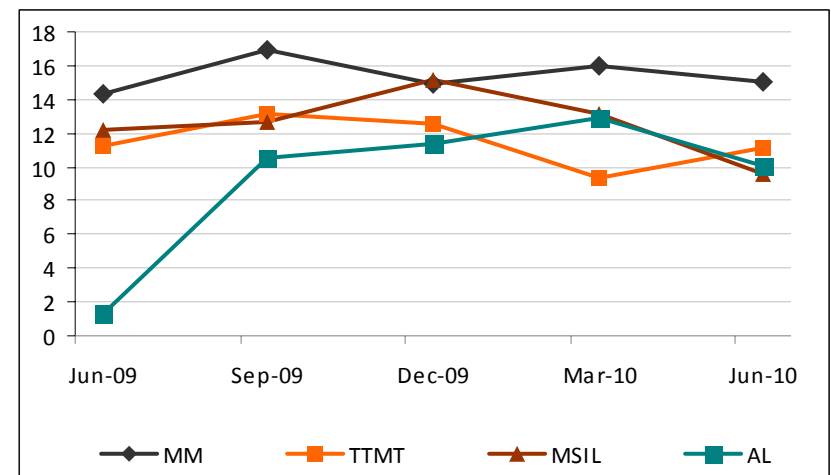
Automotive

- **Strong sales momentum** from Xylo and the refreshed version of Scorpio and steady sales from Bolero, increasing presence in CV space through positive initial response to new launches like Gio and Maximo in LCV space and expected volume traction from MHCVs coming out of MM-Navistar stable.
- **US foray** in the UV space by 2010 end to boost reach and export potential for MM.

Most resilient 4-w player

- Market leadership in least competitive auto segments like UVs and tractors, with strong pricing power, has aided in maintaining healthy profitability.

MM most profitable and least impacted by RMC pressures



Source: Company, IDBI Capital Research

- Strong performance from subsidiaries and joint ventures

Subsidiaries	Revenue (Rs mn)			EBITDA/Net Interest Income (Rs mn)			PAT (Rs mn)		
	FY08	FY09	FY10	FY08	FY09	FY10	FY08	FY09	FY10
Tech Mahindra	37,661	44,647	46,254	8,426	13,110	11,639	3,299	10,145	7,005
Mahindra Lifespace Developers	1,787	3,315	4,129	131	664	1,119	664	656	785
M&M Financial Services	7,900	9,002	11,026	6,648	7,123	9,356	1,811	2,197	3,558
Mahindra Holiday & Resorts	3,527	3,932	4,735	1,196	1,045	1,544	840	797	1,171
Swaraj Engines	1,253	2,063	2,824	237	319	496	144	213	374

Source: Company, IDBI Capital Research

Ssangyong acquisition: Long term positive

- Ssangyong is South Korea's 4th largest automaker with market share of 2% and has presence in premium SUV and sedan segments.
- Due to lack of fund availability, economic downturn and hence slumping demand for new vehicles, rising competition in the domestic market over the last two years and lack of focus from SAIC, the company went into court-led restructuring since early 2009 and is looking for a buyer to stay afloat with fresh capital.
- However, Ssangyong sales have improved in the past few months led by new launches and economic recovery. With planned expansion in newer markets such as Vietnam and Russia and through the launch of a new SUV slated later (Korando C) in 2010, it hopes to double its sales in CY10 to 85,000 units. This would be ultimately scaled up to 183,000 by 2013. We believe these are signs of improving business environment for Ssangyong.
- MM has emerged as top bidder for Ssangyong and the deal is likely to close by November 2010 end. The acquisition price is yet to be announced but market sources have indicated deal size to be US\$300-500 mn.
- We believe this deal to be a good fit for MM in the medium to long term, as it is likely to gain from Ssangyong's superior auto manufacturing and marketing processes, strong R&D set up and a formidable SUV product portfolio. Moreover, SMC has reasonably good global presence, with exports to Russia, China, Europe, Middle-East, Africa, north and south America and Asia-Pacific. This augurs well for MM, which plans to launch a pick-up truck in US towards CY10 end/early CY11 and aims to introduce an SUV later.
- The deal, if and when it materializes will take MM one step closer to its long term ambition of becoming a leading global automaker, giving its both increased scale and scope.
- One significant caveat to this deal would be the consideration that MM pays to acquire SMC and the associated liabilities that come on its books.

Top pick in auto

Sum-of-the-parts valuation

Company	Valuation Method	Per share (Rs)	Multiple	Value (Rs)	Remarks
Mahindra &Mahindra (Standalone)	P/E	48	14.0	669	Core EPS for FY12E
Mahindra Holiday & Resorts	CMP	60	0.8	48	20% discount
Swaraj Engines	CMP	3	0.8	2	20% discount
Tech Mahindra	CMP	68	0.8	54	20% discount
Mahindra Lifespace Developers	CMP	16	0.8	13	20% discount
M&M Financial Services	CMP	66	0.8	53	20% discount
Mahindra Forgings	CMP	8	0.8	6	20% discount
Mahindra UGINE Steel	CMP	2	0.8	2	20% discount
SOTP				848	

Source: IDBI Capital Research

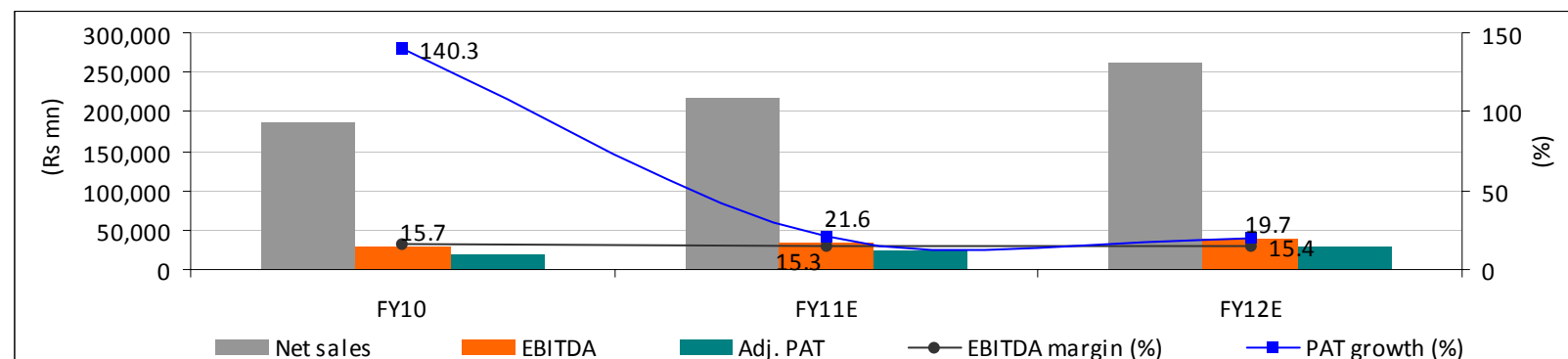
Valuation at 12.1x FY11E and 10.3x FY12E (adjusted for subsidiary valuation). Initiate with **BUY and target price of Rs848**, led by leadership position in two of the least competitive auto segments, strong performance from most subsidiaries and favourable risk reward. **MM is our top pick in the auto space.**

Assumptions

(Units)	FY10	FY11E	FY12E
Total volumes	451,927	560,965	642,676
Growth (%)	38.7	24.1	14.6
Utility vehicles	231,703	253,764	303,360
Growth (%)	43.7	9.5	19.5
LCVs	-	65,310	78,372
Growth (%)	-	-	20.0
3-wheelers	45,360	42,144	40,037
Growth (%)	1.2	(7.1)	(5.0)
Tractors	174,864.0	199,747.2	220,907.2
Growth (%)	45.8	14.2	10.6
Realisation	397,289	383,096	402,264
Growth (%)	2.0	(3.6)	5.0
EBITDA margin (%)	15.7	15.3	15.4

Source: Company, IDBI Capital Research

Pricing power and robust business environment to boost earnings



Source: Company, IDBI Capital Research

Financials (Standalone)

Income Statement

Y/E 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Net sales	130,532	185,296	219,045	263,309
<i>growth (%)</i>	<i>14.0</i>	<i>42.0</i>	<i>18.2</i>	<i>20.2</i>
Operating expenses	-120,014	-156,263	-185,566	-222,822
EBITDA	10,518	29,033	33,479	40,487
<i>growth (%)</i>	<i>-6.7</i>	<i>125.5</i>	<i>14.7</i>	<i>19.6</i>
Depreciation	-2,915	-3,708	-4,244	-5,260
EBIT	7,603	25,325	29,235	35,227
Interest paid	-1,341	-1,569	-1,042	-1,042
Other income	4,044	3,803	4,185	4,563
Pre-tax profit	10,306	27,560	32,378	38,748
Tax	-1,997	-7,590	-8,095	-9,687
Effective tax rate (%)	19	27	25	25
Net profit	8,719	20,878	24,284	29,061
Adjusted net profit	8,309	19,970	24,284	29,061
<i>growth (%)</i>	<i>-10.7</i>	<i>140.3</i>	<i>21.6</i>	<i>19.7</i>
<i>Shares o/s (mn nos)</i>	<i>563.9</i>	<i>584.5</i>	<i>584.5</i>	<i>584.5</i>

Balance Sheet

Y/E 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Net fixed assets	32,143	37,027	48,203	58,363
Investments	49,559	55,848	71,474	83,475
Other non-curr assets	4,117	1,822	1,499	1,499
Current assets	56,718	65,636	65,535	76,460
Inventories	10,607	11,888	14,053	16,893
Sundry Debtors	10,437	12,581	14,872	17,878
Cash and Bank	24,049	25,564	20,540	24,576
Loans and advances	11,610	15,094	16,041	17,082
Total assets	142,536	160,333	186,711	219,797
Shareholders' funds	52,314	78,261	105,629	129,219
Share capital	2,792	2,910	2,963	2,963
Reserves & surplus	49,829	75,358	102,673	126,263
Total Debt	40,528	28,802	20,004	20,004
Secured loans	37,161	28,777	19,979	19,979
Unsecured loans	3,367	24	24	24
Other liabilities	53,299	43,018	35,509	36,961
Curr Liab & prov	36,924	39,053	45,573	53,617
Current liabilities	36,924	39,053	45,573	53,617
Provisions	0	0	0	0
Total liabilities	90,222	82,072	81,082	90,578
Total equity & liabilities	142,537	160,333	186,711	219,797
Book Value (Rs)	102	141	183	221

Source: Company, IDBI Capital Research

Financials (Standalone)

Cash Flow Statement

Y/E 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Pre-tax profit	10,716	28,468	32,378	38,748
Depreciation	4,846	2,115	4,244	5,260
Tax paid	-3,318	-4,789	-6,292	-9,361
Chg in working capital	9,185	-7,451	2,170	2,281
Other operating activities	0	0	0	0
Cash flow from operations (a)	21,429	18,343	32,501	36,928
Capital expenditure	-13,380	-6,999	-15,420	-15,420
Chg in investments	-13,884	-4,165	0	0
Other investing activities	-1,829	-1,951	-15,626	-12,001
Cash flow from investing (b)	-29,094	-13,115	-31,046	-27,421
Equity raised/(repaid)	-132	7,509	8,555	0
Debt raised/(repaid)	14,657	-11,726	-8,798	0
Dividend (incl. tax)	-3,303	-3,121	-6,238	-5,471
Other financing activities	3,575	3,798	0	0
Cash flow from financing (c)	14,797	-3,540	-6,480	-5,471
Net chg in cash (a+b+c)	7,132	1,688	-5,025	4,036

Financial Ratios

Y/E 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Adj EPS (Rs)	16.2	35.9	42.2	49.7
Adj EPS growth (%)	-16.8	121.4	17.4	17.8
EBITDA margin (%)	8.1	15.7	15.3	15.4
Pre-tax margin (%)	8.2	15.4	14.8	14.7
ROE (%)	17.4	30.6	26.4	24.7
ROCE (%)	12.7	25.7	25.5	25.9
Turnover & Leverage ratios (x)				
Asset turnover (x)	1.1	1.2	1.3	1.3
Leverage factor (x)	2.6	2.3	1.9	1.7
Net margin (%)	6.4	10.8	11.1	11.0
Net Debt/Equity (x)	0.5	0.1	0.1	0.0
Working Capital & Liquidity ratio				
Inventory days	29.7	23.4	23.4	23.4
Receivable days	29.2	24.8	24.8	24.8
Payable days	104.7	78.7	78.3	78.4

Valuation

Y/E 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
PER (x)	41.3	18.6	15.9	13.5
Price/Book value (x)	6.6	4.8	3.7	3.0
PCE (x)	30.5	15.7	13.5	11.4
EV/Net sales (x)	3.2	2.2	1.8	1.5
EV/EBITDA (x)	28.3	12.2	10.5	8.5
Dividend Yield (%)	0.8	1.5	1.2	1.2

Source: Company, IDBI Capital Research

Tata Motors (TTMT IN)

ACCUMULATE

CMP: Rs1,054

Mkt cap: Rs584 bn

TP: Rs1,148

Cruising on JLR turnaround...

Financial snapshot

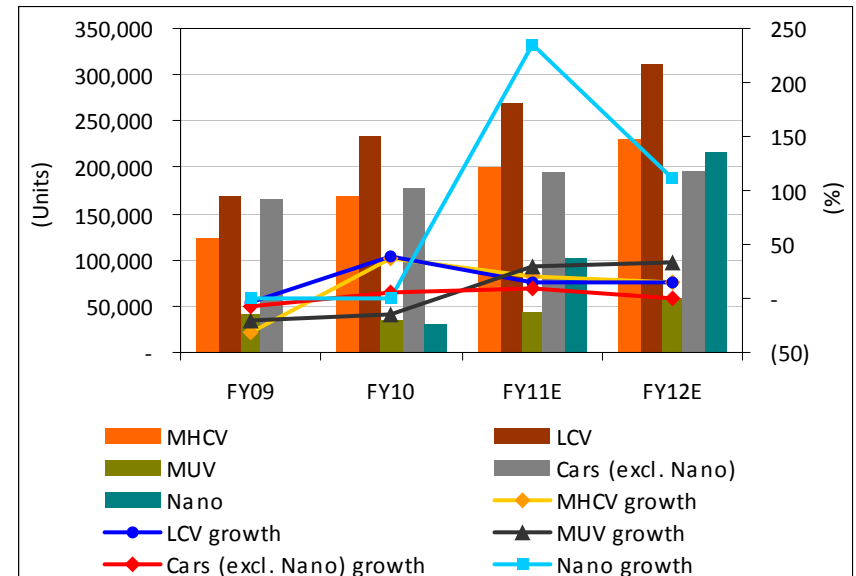
Rs mn	Revenue	EBITDA	EBITDA (%)	Adjusted net profit	EPS (Rs)	P/E (x)	EV/EBITDA (x)
FY09	258,404	18,809	7.3	3,004	6.8	-	-
FY10	356,105	38,427	10.8	17,937	33.1	31.9	15.7
FY11E	416,765	48,856	11.7	24,220	42.3	24.9	13.0
FY12E	510,802	59,120	11.6	28,854	49.3	21.4	10.5

Source: Company, IDBI Capital Research

Turnaround sustainable

- We expect TTMT to be key beneficiary of strong domestic CV demand expected over next 2-3 years, led by strong IIP growth, healthy freight movement, market leadership and pricing power. Passenger vehicles demand to be boosted by Nano and expected launch of new MPV Aria.
- JLR has seen strong volume recovery in the non-European markets, especially US, UK and China and improved profitability led by operating leverage, better cost management, improved product and geography mix, and favourable currency movement. We expect this improved operating performance to sustain over FY10-12E.

Segment wise volume trend



Source: Company, IDBI Capital Research

Particulars	FY09*	FY10	FY11E	FY12E	Comments
Volume (Units)	167,300	193,982	228,151	250,966	
Jaguar	47,000	47,418	64,955	71,451	Positive response to new launches
Land Rover	120,300	146,564	163,196	179,516	Positive response to new launches
Realisation (GBP/vehicle)	29,583	33,787	37,500	37,875	Improved product and geographic mix

* June 2008 to March 2009

Source: Company, IDBI Capital Research

Improving balance sheet profile

- Balance sheet profile has improved considerably with consolidated net D/E coming down to 2x as on June 2010 from 4.3x in December 2009 and 6x in September 2009

Standalone financials

Rs mn	FY09	FY10	FY11E	FY12E
Debt	131,656	166,259	156,178	138,178
Cash	11,458	22,828	18,538	43,114
Networth	123,921	148,038	164,156	200,369
Net D/E (x)	1.0	1.0	0.9	0.5
Free cash flow	(113,839)	(38,758)	13,682	34,846

Improving balance sheet profile

Source: Company, IDBI Capital Research

Upside risks

- Better than expected traction in JLR volumes and sustainable improvement in its profitability
- Strong operational cash flows leading to improved balance sheet profile, with gearing inching towards 1x

Downside risks

- CV cyclicity, product fatigue in car segment, looming European crisis resulting in negative impact on JLR
- Forex exposure, input costs, pension liability at JLR

Tata Motors: JLR the determining factor

Based on FY12E	Method	Multiple (x)	Discount (%)	Value per share (Rs)
Tata Motors standalone	P/E	14.0		641
JLR	EV/EBITDA	4.0		422
Tata Daewoo CV	P/E	12.0	20	19
Telcon (40%)	P/E	12.0	20	6
Tata Technologies	P/E	12.0	20	19
HV Transmission (85%)	P/E	10.0	20	10
HV Axles (85%)	P/E	10.0	20	11
Tata Motors Finance	P/B	1.0	20	19
SOTP value				1,148

Source: IDBI Capital Research

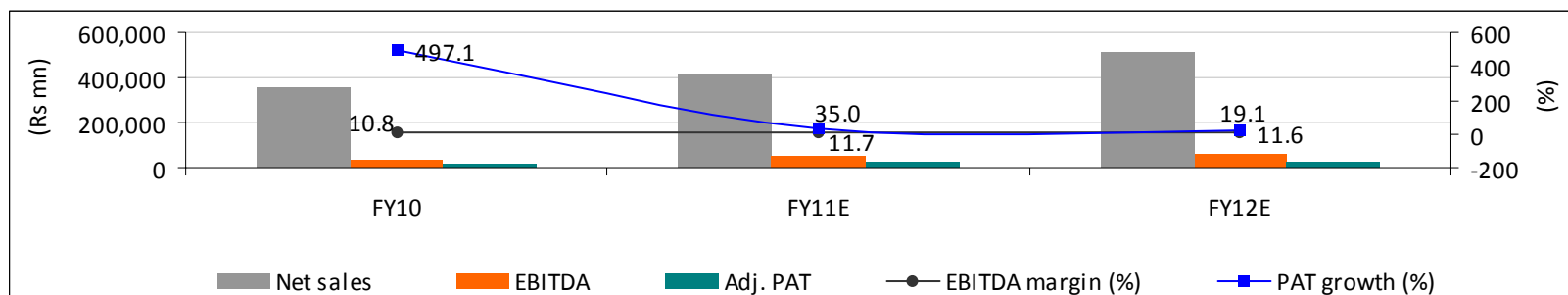
TTMT trades at 13.2x FY11E and 11.4x FY12E (adjusted for subsidiary). We believe TTMT's fate is largely dependent on JLR's fortunes, with domestic CV space likely to grow at a stable rate. TTMT is our preferred pick after MM in the 4-wheeler space and we initiate coverage with ACCUMULATE and price target of Rs1,148.

Assumptions

Units	FY10	FY11E	FY12E
Total Vehicles	642,686	812,031	1,013,625
Growth %	29.0	26.3	24.8
Commercial Vehicles	401,371	471,481	543,152
Growth %	37.7	17.5	15.2
MHCV	167,707	201,248	231,436
Growth %	36.4	20.0	15.0
LCV	233,664	270,232	311,716
Growth %	38.7	15.6	15.4
MUV	34,181	44,203	58,589
Growth %	(14.5)	29.3	32.5
Cars (excl. Nano)	176,784	194,348	195,884
Growth %	6.0	9.9	0.8
Nano	30,350	102,000	216,000
Growth %	-	236.1	111.8
Realisation (Rs)	554,088	513,237	503,936
Growth %	6.8	(7.4)	(1.8)
EBITDA margin (%)	10.8	11.7	11.6

Source: Company, IDBI Capital Research

Beneficiary of robust CV outlook



Source: Company, IDBI Capital Research

JLR Financials: Improved operational performance

(mn GBP)	FY10E	FY11E	FY12E
Revenues	6,554	8,556	9,505
RM	4,439	5,482	6,151
Employee Expenses	730	800	840
Other expenditure	953	1,264	1,390
Total expenditure	6,122	7,546	8,381
% of sales	93.4	88.2	88.2
EBITDA	432	1,010	1,124
% of sales	6.6	11.8	11.8
Prd dev exp	48	60	55
Depreciation	310	310	315
EBIT	74	640	754
% of sales	1.1	7.5	7.9
Interest	53	65	65
PBT (pre-exceptional)	21	575	689
Exceptional item	10	-	-
PBT	31	575	689
% of sales	0.5	6.7	7.2
Taxes	29	86	103
% of PBT	95.1	15.0	15.0
PAT	2	488	586
% of sales	0.0	5.7	6.2

Sustained volume momentum and healthy mix; 65-70% of consolidated revenue

Favourable mix, cost efficiencies and scale benefits

Turning profitable and contributing to cashflows; 65-70% of consolidated earnings

Source: Company, IDBI Capital Research

Financials (Standalone)

Income Statement

Y/E 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Net sales	258,404	356,105	416,765	510,802
<i>growth (%)</i>	-9.1	37.8	17.0	22.6
Operating expenses	-239,595	-317,678	-367,908	-451,682
EBITDA	18,809	38,427	48,856	59,120
<i>growth (%)</i>	-41.7	141.3	19.6	15.8
Depreciation	-8,745	-10,339	-12,598	-14,200
EBIT	10,064	28,088	36,259	44,920
Interest paid	-10,731	-14,835	-13,698	-13,698
Other income	519	8,206	6,913	5,436
Pre-tax profit	-148	21,459	29,474	36,658
Tax	530	-5,895	-7,627	-10,177
Effective tax rate (%)	-6	22	24	26
Net profit	10,013	20,311	24,220	28,854
Adjusted net profit	3,004	17,937	24,220	28,854
<i>growth (%)</i>	-82.8	497.1	35.0	19.1
<i>Shares o/s (mn nos)</i>	562.1	624.1	624.1	624.1

Balance Sheet

Y/E 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Net fixed assets	145,993	164,360	181,054	196,145
Investments	129,642	218,074	217,938	217,829
Other non-curr assets	11,449	7,915	7,915	7,915
Current assets	96,955	120,675	125,357	163,979
Inventories	22,298	29,356	34,255	41,984
Sundry Debtors	15,552	23,919	27,994	34,310
Cash and Bank	11,458	22,828	18,538	43,114
Loans and advances	47,648	44,571	44,571	44,571
Total assets	384,039	511,024	532,264	585,868
Shareholders' funds	123,921	148,038	164,156	200,369
Share capital	5,140	5,706	5,751	5,963
Reserves & surplus	118,801	142,332	158,405	194,406
Total Debt	131,656	166,259	156,178	138,178
Secured loans	60,634	117,353	107,272	89,272
Unsecured loans	71,021	48,906	48,906	48,906
Other liabilities	167,078	204,977	193,384	175,386
Curr Liab & prov	93,040	158,009	174,724	210,114
Current liabilities	93,040	158,009	174,724	210,114
Provisions	0	0	0	0
Total liabilities	260,118	362,986	368,108	385,500
Total equity & liabilities	384,039	511,024	532,264	585,868
Book Value (Rs)	282	273	287	342

Source: Company, IDBI Capital Research

Financials (Standalone)

Cash Flow Statement

Y/E 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Pre-tax profit	9,482	26,205	31,847	39,031
Depreciation	8,164	9,530	12,598	14,200
Tax paid	-569	2,532	-9,625	-10,177
Chg in working capital	-704	44,561	8,018	20,975
Other operating activities	0	0	0	0
Cash flow from operations (a)	16,373	82,828	42,837	64,029
Capital expenditure	-49,634	-27,898	-29,291	-29,291
Chg in investments	-62,658	22,647	0	0
Other investing activities	-17,921	-116,335	136	109
Cash flow from investing (b)	-130,213	-121,585	-29,155	-29,182
Equity raised/(repaid)	39,616	14,069	3,367	19,199
Debt raised/(repaid)	68,850	34,604	-10,081	-18,000
Dividend (incl. tax)	-6,597	-3,457	-9,919	-10,130
Other financing activities	-585	-343	-1,339	-1,339
Cash flow from financing (c)	101,284	44,872	-17,972	-10,270
Net chg in cash (a+b+c)	-12,555	6,115	-4,290	24,576

Financial Ratios

Y/E 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Adj EPS (Rs)	6.8	33.1	42.3	49.3
Adj EPS growth (%)	-84.9	383.9	27.8	16.5
EBITDA margin (%)	7.3	10.8	11.7	11.6
Pre-tax margin (%)	3.7	7.4	7.6	7.6
ROE (%)	3.0	13.2	15.5	15.8
ROCE (%)	5.8	12.0	12.8	14.4
Turnover & Leverage ratios (x)				
Asset turnover (x)	0.8	0.8	0.8	0.9
Leverage factor (x)	3.2	3.3	3.3	3.1
Net margin (%)	1.2	5.0	5.8	5.6
Net Debt/Equity (x)	1.0	1.0	0.9	0.5
Working Capital & Liquidity ratio				
Inventory days	31.5	30.1	30.0	30.0
Receivable days	22.0	24.5	24.5	24.5
Payable days	133.0	155.9	153.0	152.9

Valuation

Y/E 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
PER (x)	154.3	31.9	24.9	21.4
Price/Book value (x)	3.7	3.9	3.7	3.1
PCE (x)	39.4	20.2	16.4	14.3
EV/Net sales (x)	2.7	2.1	1.7	1.3
EV/EBITDA (x)	36.4	15.7	13.0	10.5
Dividend Yield (%)	0.7	1.5	1.4	1.5

Source: Company, IDBI Capital Research

TVS Motor (TVSL IN)

CMP: Rs77

Mkt cap: Rs34 bn

BUY

TP: Rs98

New launches set to Jive...

Financial snapshot

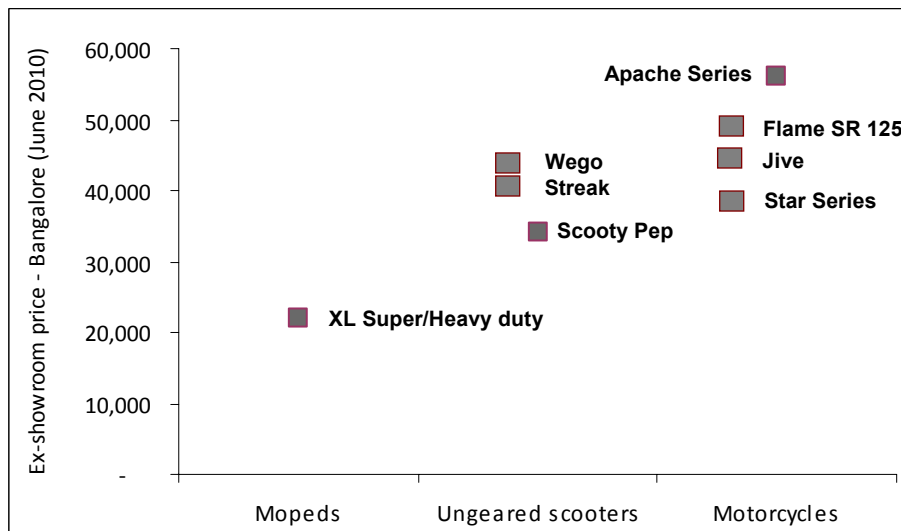
Rs mn	Revenue	EBITDA	EBITDA (%)	Adjusted net profit	EPS (Rs)	P/E (x)	EV/EBITDA (x)
FY09	37,367	1,868	5.0	296	0.6	-	-
FY10	44,311	2,773	6.3	879	1.9	41.4	17.8
FY11E	59,429	4,657	7.8	2,269	4.8	16.1	9.3
FY12E	71,553	6,114	8.5	3,320	7.0	11.0	6.1

Source: Company, IDBI Capital Research

New launches on a roll...margin expansion in store

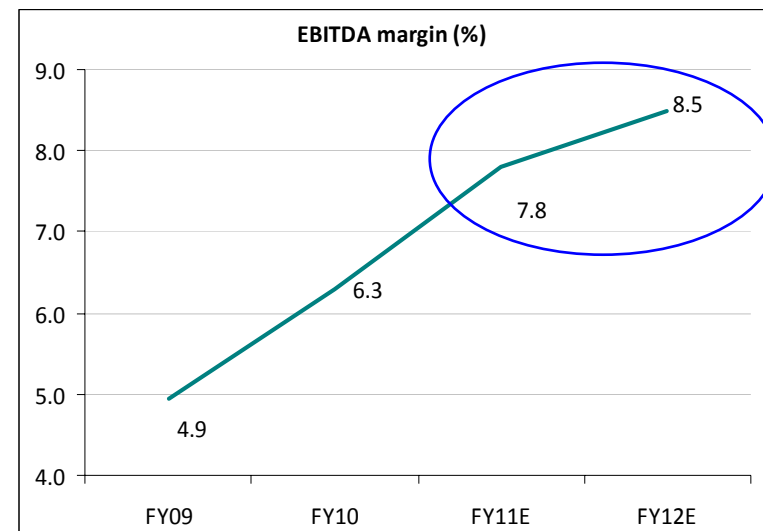
- **Better positioning with new launches not targeted at segments dominated by BJAUT and HH –** Jive is a clutch less bike and Wego is an ungeared scooter
- **Gaps in product portfolio have been filled** through new launches
- **Margin expansion** in store on better operating leverage (as volumes increase led by new launches) and improving product mix ((i) within the 2-w segment and (ii) with increasing share of more profitable 3-w segment) and increased share of tax haven Himachal plant

Filling gaps in product portfolio



Source: Company, IDBI Capital Research

Margin expansion on improved mix and operating leverage



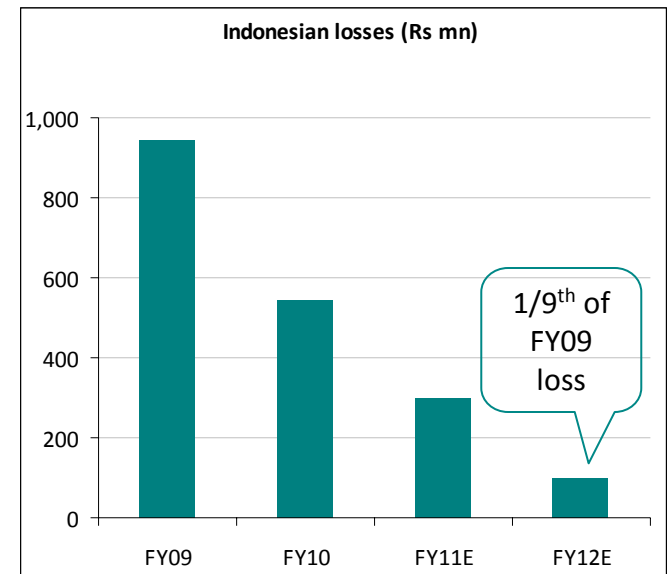
...top pick in two-wheeler space

- Indonesian operations expected to reduce losses over FY11-12 on improved volumes (management expects Indonesia to break even by FY11 end).
- Exports to gain momentum with 25% CAGR over FY10-12E as new markets like Brazil, Africa, other South American markets get added and traction improves in existing geographies
- Expect dominance in moped segment with steady growth and 100% market share.

Risks

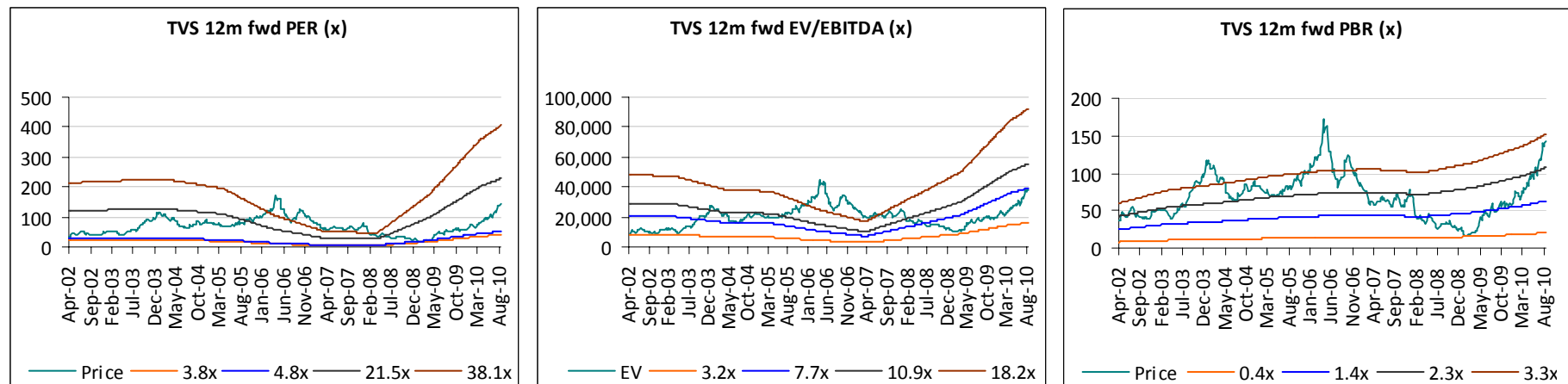
- Poor response to new launches and higher than anticipated losses in Indonesian subsidiary
- If the 2 wheeler industry loses demand momentum, we believe TVS would be impacted first among top 3 players

Shrinking Indonesian losses



Source: Company, IDBI Capital Research

Valuation compares favourably with 5-yr median



Source: Bloomberg, IDBI Capital Research

TVSL is trading at lower than last 5-yr valuation on most parameters. Last 5-yr median PER is 25x, while it currently trades at ~14x 1-yr forward earnings. Similarly its 5-yr median EV/EBITDA is 10x, while it trades at ~9x. We believe that TVSL deserves better valuation considering its 94% earnings CAGR over FY10-12E and improving product mix.

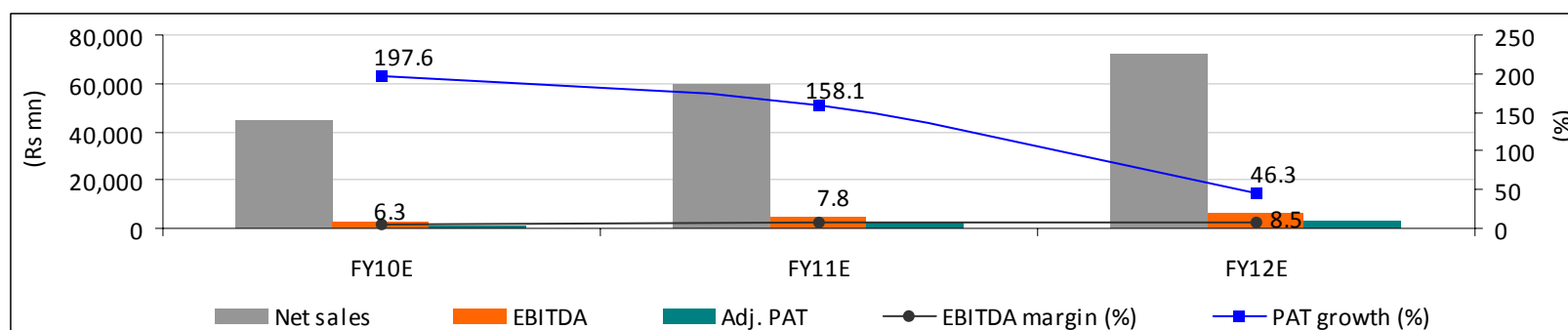
Valuation at 16.1x FY11E and 11x FY12 standalone earnings is cheap. Initiate coverage with **BUY** and target price of Rs98 (14x FY12E). TVSL is our top pick in the two-wheeler space.

Assumptions

Units	FY10	FY11E	FY12E
Total Sales	1,537,361	1,921,309	2,215,878
Growth %	15.0	25.0	15.3
Motorcycle	640,801	786,231	904,165
Growth %	0.8	22.7	15.0
Scooters	309,436	435,224	522,268
Growth %	24.6	40.7	20.0
Mopeds	571,489	659,629	738,577
Growth %	30.0	15.4	12.0
Three Wheelers	15,116	39,707	50,348
Growth %	227.7	162.7	26.8
Electric Vehicles	519	519	519
Growth %	(94.1)	-	-
Realisation	28,822	30,932	32,291
Growth %	3.2	7.3	4.4
EBITDA margin (%)	6.1	7.8	8.4

Source: Company, IDBI Capital Research

New launches lead margin expansion



Source: Company, IDBI Capital Research

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Net sales	37,367	44,311	59,429	71,553
<i>growth (%)</i>	14.3	18.6	34.1	20.4
Operating expenses	-35,499	-41,538	-54,773	-65,439
EBITDA	1,868	2,773	4,657	6,114
<i>growth (%)</i>	38.8	28.6	87.7	30.9
Depreciation	-1,049	-1,045	-1,288	-1,385
EBIT	820	1,728	3,369	4,729
Interest paid	-646	-754	-754	-754
Other income	122	-214	146	176
Pre-tax profit	296	761	2,762	4,151
Tax	0	118	-492	-830
Effective tax rate (%)	0	-16	20	20
Net profit	310	880	1,969	3,320
Adjusted net profit	296	879	2,269	3,320
<i>growth (%)</i>	-7.0	197.6	158.1	46.3
<i>Shares o/s (mn nos)</i>	475.0	475.0	475.0	475.0

Balance Sheet

Y/E 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Net fixed assets	10,355	9,828	10,010	9,795
Investments	3,941	4,401	5,101	5,402
Other non-curr assets	0	0	0	0
Current assets	9,631	12,636	15,628	20,411
Inventories	3,206	2,897	3,886	4,679
Sundry Debtors	1,816	2,203	2,955	3,558
Cash and Bank	1,257	4,002	4,660	8,043
Loans and advances	3,353	3,534	4,128	4,132
Total assets	23,927	26,865	30,739	35,608
Shareholders' funds	7,370	8,353	9,986	12,973
Share capital	475	475	475	475
Reserves & surplus	7,648	8,179	9,815	12,802
Total Debt	9,060	10,033	10,033	10,033
Secured loans	4,387	8,300	8,300	8,300
Unsecured loans	4,673	1,733	1,733	1,733
Other liabilities	10,982	11,713	11,786	11,842
Curr Liab & prov	5,576	6,799	8,968	10,793
Current liabilities	5,576	6,799	8,968	10,793
Provisions	0	0	0	0
Total liabilities	16,557	18,512	20,753	22,635
Total equity & liabilities	23,927	26,865	30,739	35,608
Book Value (Rs)	16	18	22	28

Source: Company, IDBI Capital Research

Financials

Cash Flow Statement

Y/E 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Pre-tax profit	311	762	2,462	4,151
Depreciation	958	831	1,288	1,385
Tax paid	49	-101	-652	-777
Chg in working capital	-432	1,002	-37	429
Other operating activities	0	0	0	0
Cash flow from operations (a)	886	2,493	3,060	5,188
Capital expenditure	-882	-304	-1,470	-1,170
Chg in investments	141	703	0	0
Other investing activities	-1,528	-3,319	-700	-301
Cash flow from investing (b)	-2,270	-2,920	-2,170	-1,471
Equity raised/(repaid)	-226	452	-3	0
Debt raised/(repaid)	2,396	973	0	0
Dividend (incl. tax)	-195	-389	-230	-333
Other financing activities	-209	-20	0	0
Cash flow from financing (c)	1,767	1,016	-232	-333
Net chg in cash (a+b+c)	383	590	658	3,383

Financial Ratios

Y/E 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Adj EPS (Rs)	0.6	1.9	4.8	7.0
Adj EPS growth (%)	-7.0	197.6	158.1	46.3
EBITDA margin (%)	5.0	6.3	7.8	8.5
Pre-tax margin (%)	0.8	1.7	4.1	5.8
ROE (%)	3.9	11.2	24.7	28.9
ROCE (%)	5.3	7.9	16.8	21.1
Turnover & Leverage ratios (x)				
Asset turnover (x)	1.6	1.7	2.1	2.2
Leverage factor (x)	3.0	3.2	3.1	2.9
Net margin (%)	0.8	2.0	3.8	4.6
Net Debt/Equity (x)	1.2	1.1	0.8	0.2
Working Capital & Liquidity ratio				
Inventory days	31.3	23.9	23.9	23.9
Receivable days	17.7	18.1	18.1	18.1
Payable days	56.6	58.6	59.6	60.1

Valuation

Y/E 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
PER (x)	123.3	41.4	16.1	11.0
Price/Book value (x)	4.8	4.2	3.6	2.8
PCE (x)	27.1	18.9	10.2	7.7
EV/Net sales (x)	1.2	1.0	0.8	0.5
EV/EBITDA (x)	22.6	17.8	9.3	6.1
Dividend Yield (%)	0.5	0.8	0.8	0.8

Source: Company, IDBI Capital Research

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Vikrant Oak – Head Institutional Equities	(91-22) 4322 1385	vikrant.oak@idbicapital.com
Sonam H. Udasi – Head Research	(91-22) 4322 1375	sonam.udasi@idbicapital.com
Dealing	(91-22) 4322 1150	dealing@idbicapital.com

Key to Ratings

Stocks:

Buy: Absolute return of 15% and above; **Accumulate:** 5% to 15%; **Hold:** Upto $\pm 5\%$; **Reduce:** -5% to -15%; **Sell:** -15% and below.

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Registered Office: 5th floor, Mafatlal Centre, Nariman Point, Mumbai – 400 021. Phones: (91-22) 4322 1212 Fax: (91-22) 2285 0785 Email: info@idbicapital.com