

Synopsis of India's Automobile Sector – FY 2012 - 13



Financial Advisory Services – Team RBSA

- Valuation
- Investment Banking
- Advisory Services



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India's Automobile Background

Automotive industry is the key driver of any growing economy. Due to its deep forward and backward connections with almost every segment of the economy, the industry has a strong and positive multiplier effect and thus propels progress of a nation.

The automotive industry comprises of the automobile and the auto component sectors. It includes passenger cars; light, medium and heavy commercial vehicles; multi-utility vehicles such as jeeps, scooters, motorcycles, three wheelers, tractors, etc; and auto components like engine parts, drive and transmission parts, suspension and braking parts, electrical, body and chassis parts; etc.

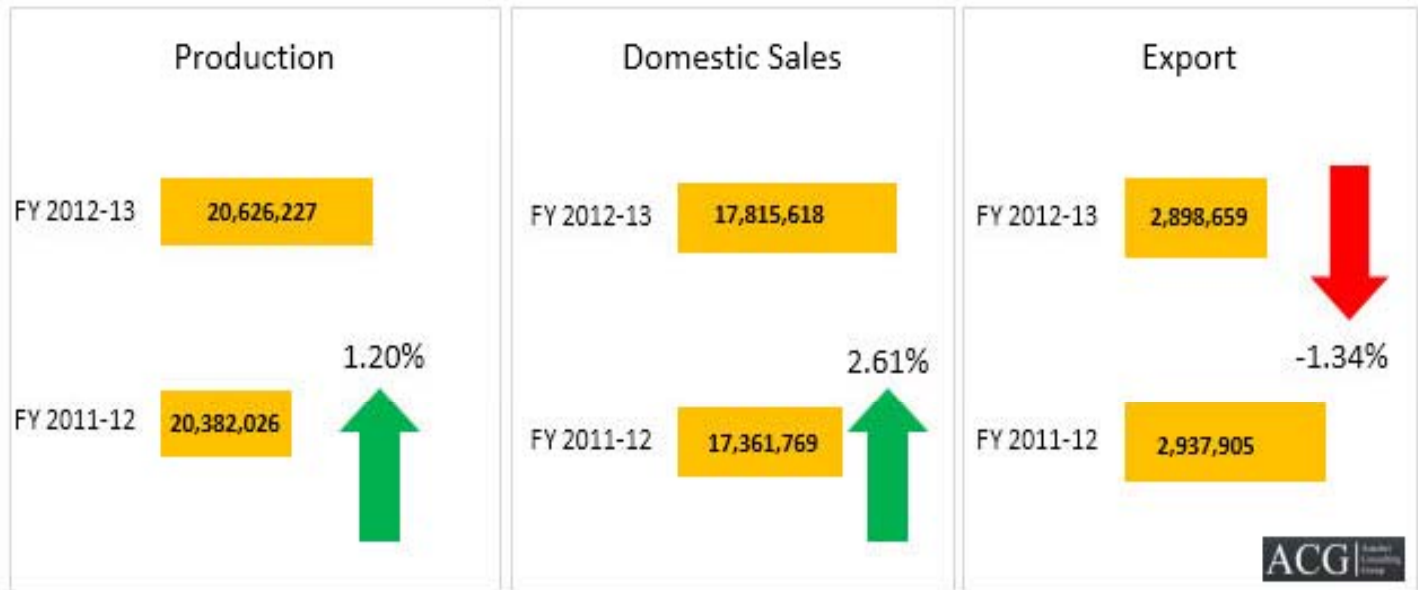
The Indian automotive industry has made rapid strides since de-licensing and opening up of the sector in 1991. It has witnessed the entry of several new manufacturers with the state-of-art technology, thus replacing the monopoly of few manufacturers.

The norms for foreign investment and import of technology have also been liberalized over the years for manufacture of vehicles. At present, 100% foreign direct investment (FDI) is permissible under the automatic route in this sector, including passenger car segment.

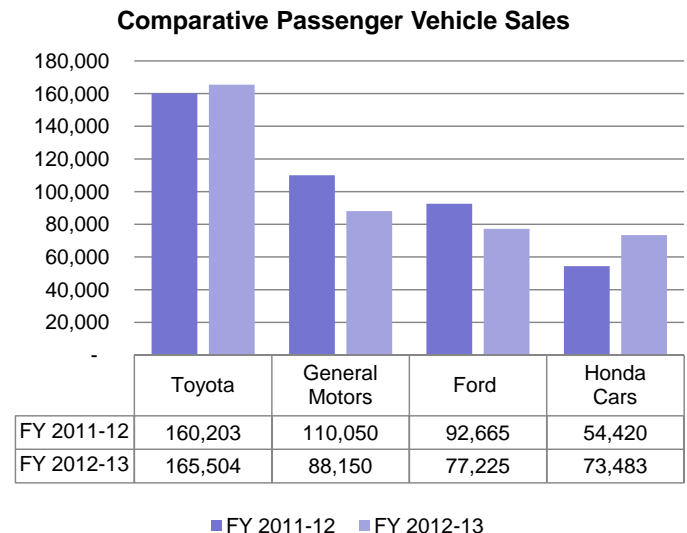
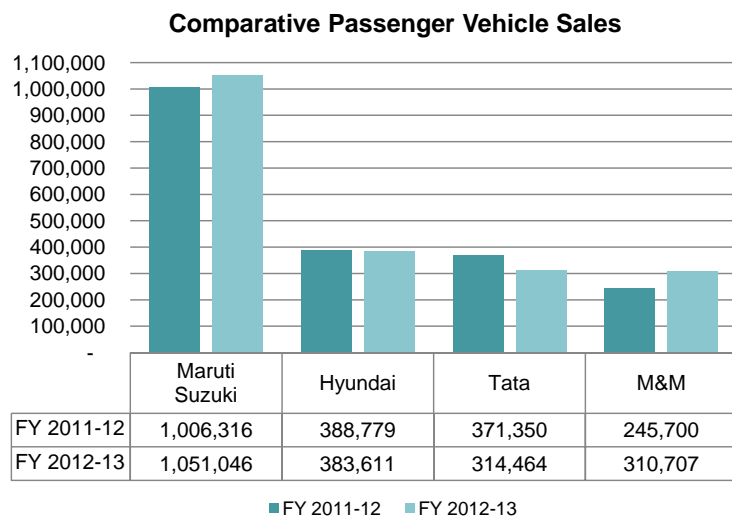


Automobile Current Trends and Performance

Overall Indian Automobile Industry has shown marginal growth in FY 2012-13 compare to last FY 2011-12. According to Autobei Consulting Group (ACG), Production and Domestic sales has registered growth of 1.20% and 2.61%, however export is negative growth due to negative global environment and fluctuation.

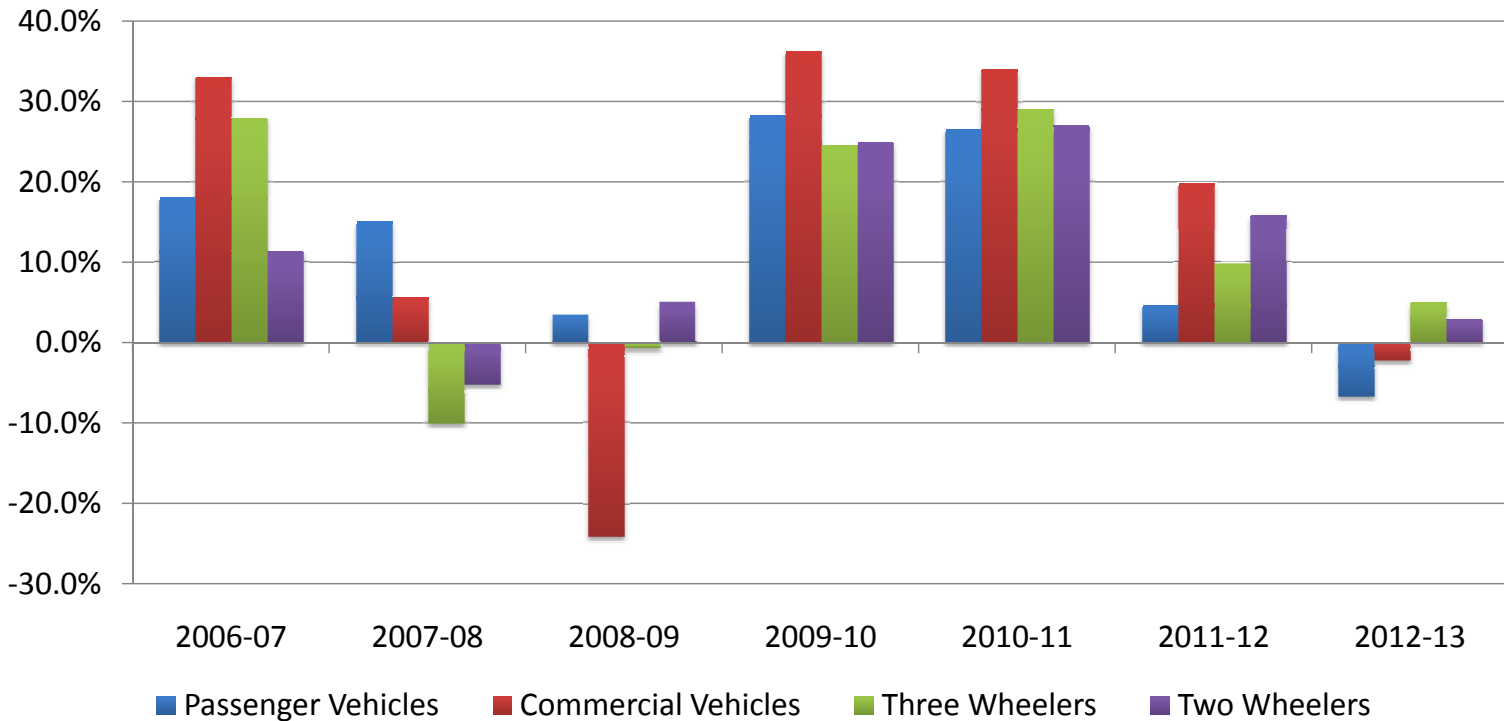


One of the hot spot in world automotive industry is Indian car market. Indian car industry is going thru turbulent times in now. Car sales is down by more than 6% in FY 2012-13 compare to last year of FY 2011-12. The main reasons are high interest rates, fuel price, high inflation, low movement in other sectors etc. Utility vehicle segment is having maximum growth in this segment. Following graphs shows figures of passenger vehicles domestic sales over the period of march – December 2012. M&M has shown a growth of almost 27% during FY 2012 -13 where as Tata Motors has shown a negative growth of 15% during the same period.





Historical and Current Growth in each segments



Passenger car sales in India fell 7 percent in FY2013, the first such decline in over a decade, based on the data provided by Society of Indian Automobile Manufacturers (SIAM). The industry body is, however, hopeful of a pickup in FY14.

Sales across passenger cars, medium & heavy commercial vehicles and two-wheelers have been hit amid expensive loans, rising fuel prices and the overall economic slowdown too has dampened sentiments.

The slowdown has hit truck and bus makers like Tata Motors, Ashok Leyland and car makers including Maruti Suzuki and other domestic and multi-national rivals hard.

Overall, last financial year, CV sales were down 2 percent and motorcycle sales saw only marginal growth.

The overall economic activity remains weak, hurting M&HCV sales, SIAM pointed out. Weak rural demand had also hit passenger vehicles sales.



Industry's Way Forward in 2014...

FY14 FORECAST :

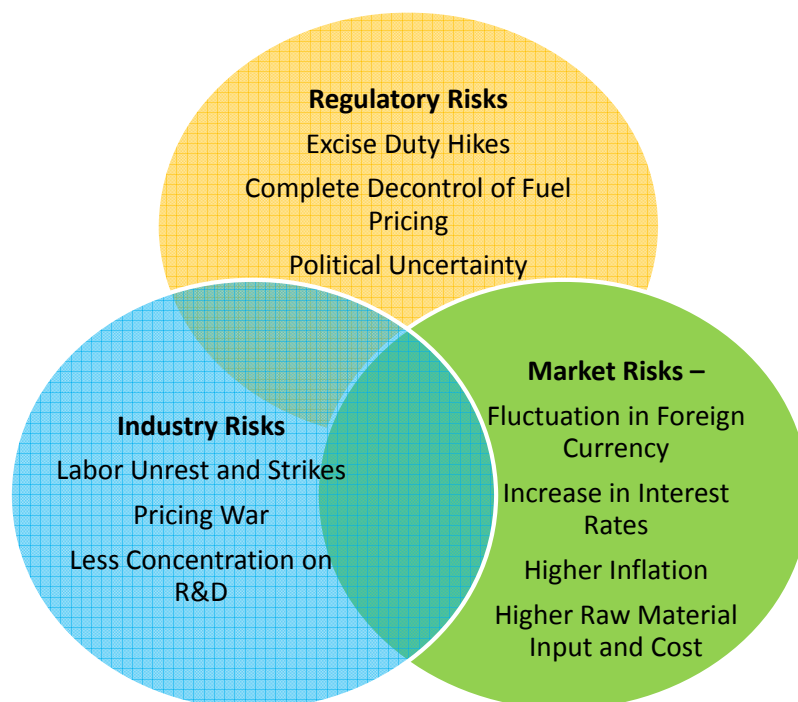
SIAM has had to revise its sales forecast several times in FY13. It had initially predicted a double digit growth in car sales, but finally cut it to 0-1 percent as sales remained in the slow lane. This year, it is more cautious and expects car sales to rise 3-5 percent.

Utility vehicles, which has seen good growth, helped by new launches in the compact UV segment, are expected to clock 11-13 percent growth.

CV sales in FY14 are likely to rise 7-9 percent, with light truck sales growing 10-12 percent. M&HCV sales will continue to see slow growth (1-3 percent growth forecast).

SIAM expects motorcycle sales to grow 6-8 percent in 2013-14.

Following could be the major risk factors affecting the growth of the Automobile Industry:

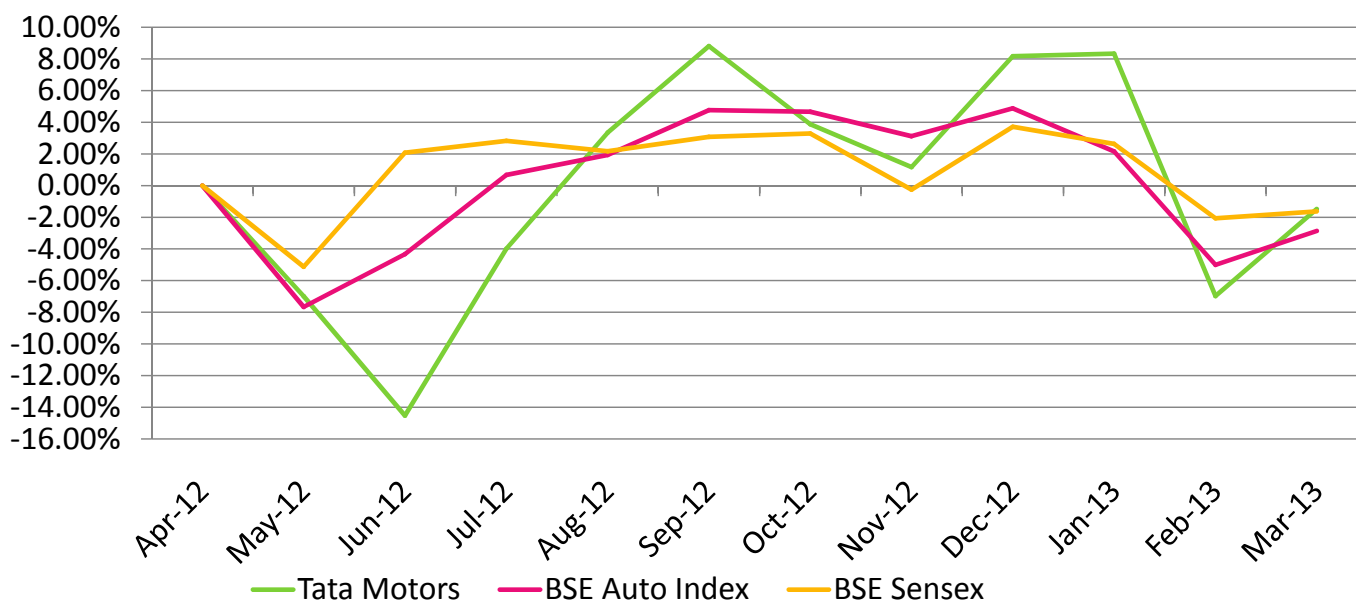


Tata Motors

Tata Motors, the country's largest automobile manufacturer, has reported a 27.6 per cent decline in its total vehicle sales during March 2013. The company managed to sell just 72,712 units last month, as compared to sales of 1,00,414 units recorded in the year-ago period. As per reports, the March 2012 brought in a sales volume of 72,172 units, including exports for Tata Motors. Out of this figure, the domestic sales of commercial and passenger vehicles accounted for a total of 69,160 units. The automobile manufacturer also exported 3,552 vehicles in March 2013 with cumulative exports for the FY ending March 2013 recorded at 50,831 units. In all, Tata Motors managed to sell 8,10,086 vehicles in the FY 2012-13, as against 9,06,768 units sold in the previous fiscal.

On the Commercial Vehicle (CV) front, Tata Motors sold 56,813 units in domestic market, including 41,961 Light Commercial Vehicles (LCV) and 14,852 Medium & Heavy Commercial Vehicles (M&HCV). The pick-up range of Tata Motors, comprising Tata Super Ace, Tata Xenon and Tata 207 recorded sales of 6,981 units, whereas, Small Commercial Vehicles (SCVs) like Tata Ace and Tata Magic range sold 29,960 units. All these figures are the highest-ever recorded by these respective segments of Tata Motors in the domestic automotive market. The overall sales by the company in CV, LCV and M&HCV segments stood at 5,37,143, 3,93,762 and 1,43,381 units respectively.

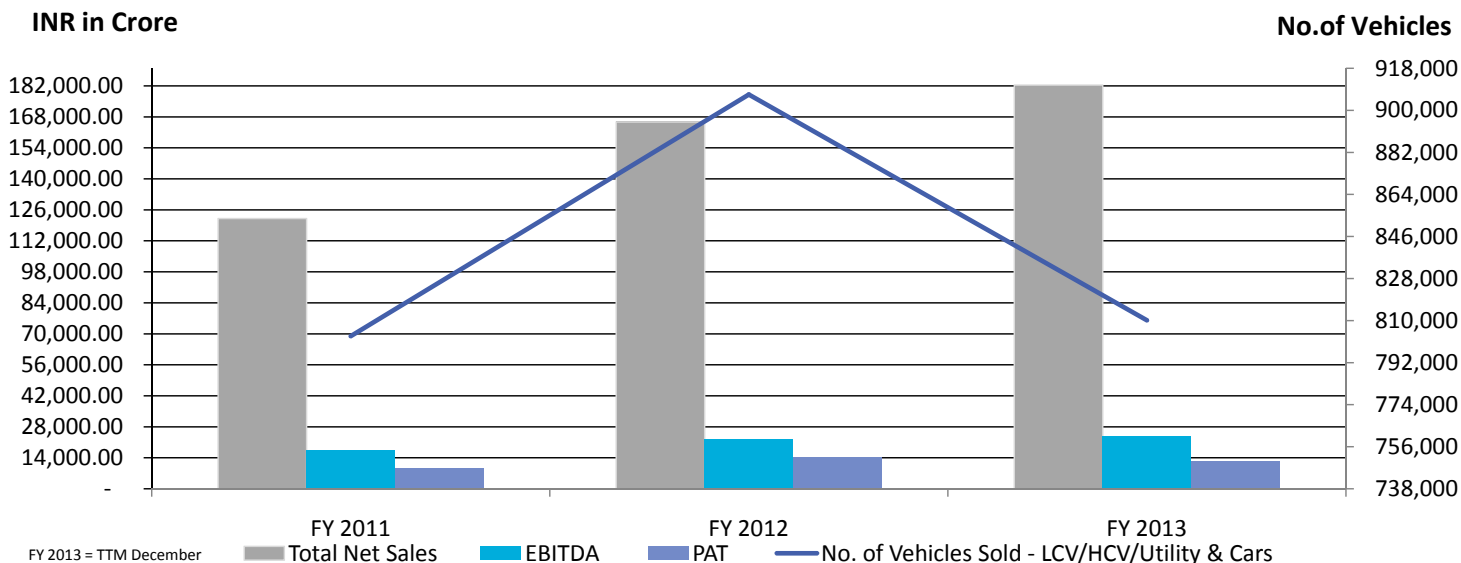
Stock Performance viz-a-viz Index



Industry Players Performance and Valuation Multiples

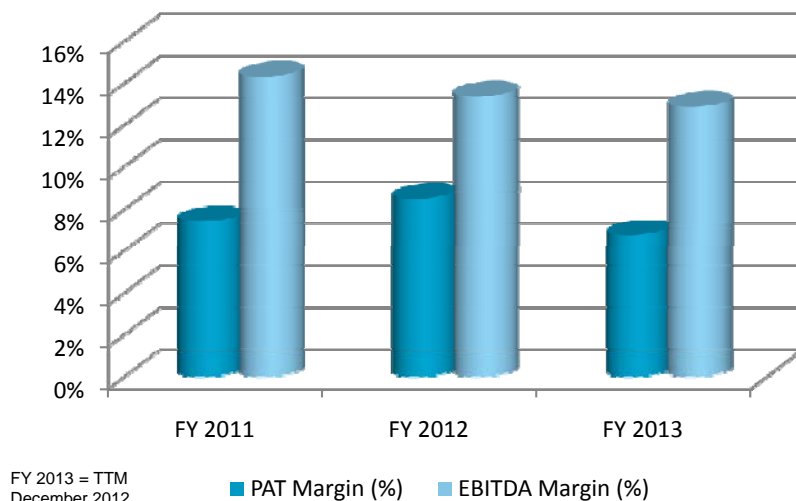
Tata Motors

Sales & Profitability Analysis – Consolidated Financials



Tata Motors aims to increase its sales by offering a number of customer oriented services in the country. Telematics & Fleet Management Service was introduced by the automotive giant last year, which utilises advanced Telematics solutions to track fleet vehicles in order to boost productivity and profitability. Another service intended for commercial vehicle segment, Tata Alert, was launched that offer on-site breakdown assistance to the owners of medium and heavy commercial vehicles within four hours. The company also opened doors of its two cutting edge Tata Motors exclusive showrooms in South Extension, New Delhi and Mumbai to offer superior services to its customers. Company intends to open more such showrooms all over the country in upcoming months. Experts believe that with an impressive line-up of new vehicles and initiatives designed to enhance customer experience, Tata Motors could increase its sales performance in the coming years.

Profitability Ratio Analysis



The Indian automobile manufacturing giant launched several commercial vehicles in the FY 2012-13 including Tata Xenon Pick-up, Tata PRIMA 4923, Tata PRIMA 3138K tipper, Tata LPK 3118 tipper and Tata LPT 3723 5-axle truck. It also introduced several new tractors like Tata PRIMA 4938 tractor and Tata PRIMA 4023. In the passenger vehicle segment, the company unveiled Tata Vista D90, Tata Safari Storme, Tata Manza, Tata Aria Pure LX, Nano Special Edition and the Tata Indica eV2.

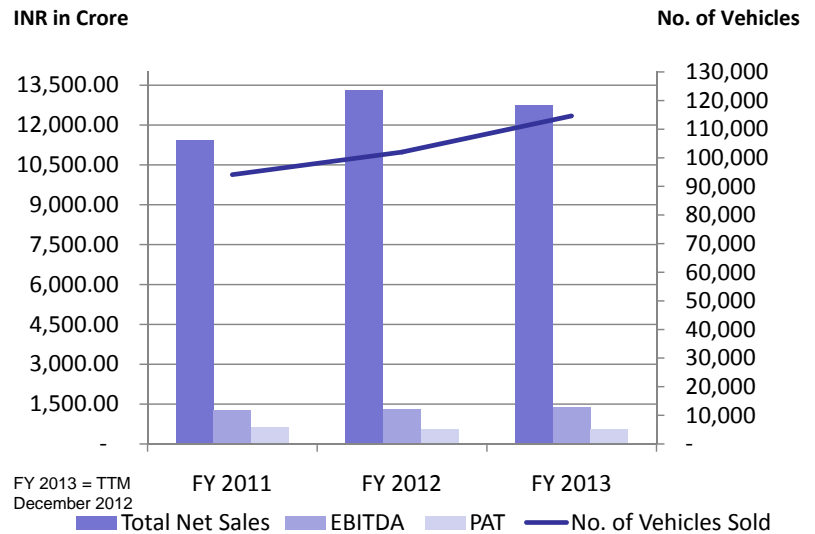
Ashok Leyland

Ashok Leyland (ALL), the Hinduja Group flagship in India, has closed the year with sales of 70,917 units, down 13% from 81,545 vehicles sold in the domestic market last year.

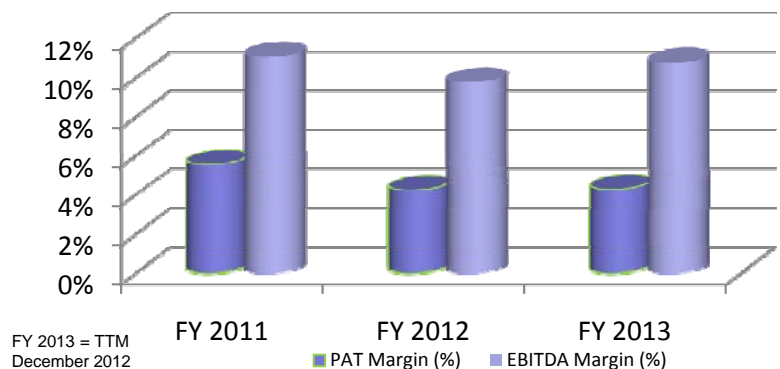
The company has announced a market share of 26.5% translating into a gain of 3% in a falling medium and heavy commercial vehicle (M&HCV) market. ALL's successful light commercial vehicle Dost contributed 34,917 vehicles, a huge jump over the 7,593 units it sold the year before.

ALL's overall sales hit 114,612 vehicles, up from 101,990 units sold the year before.

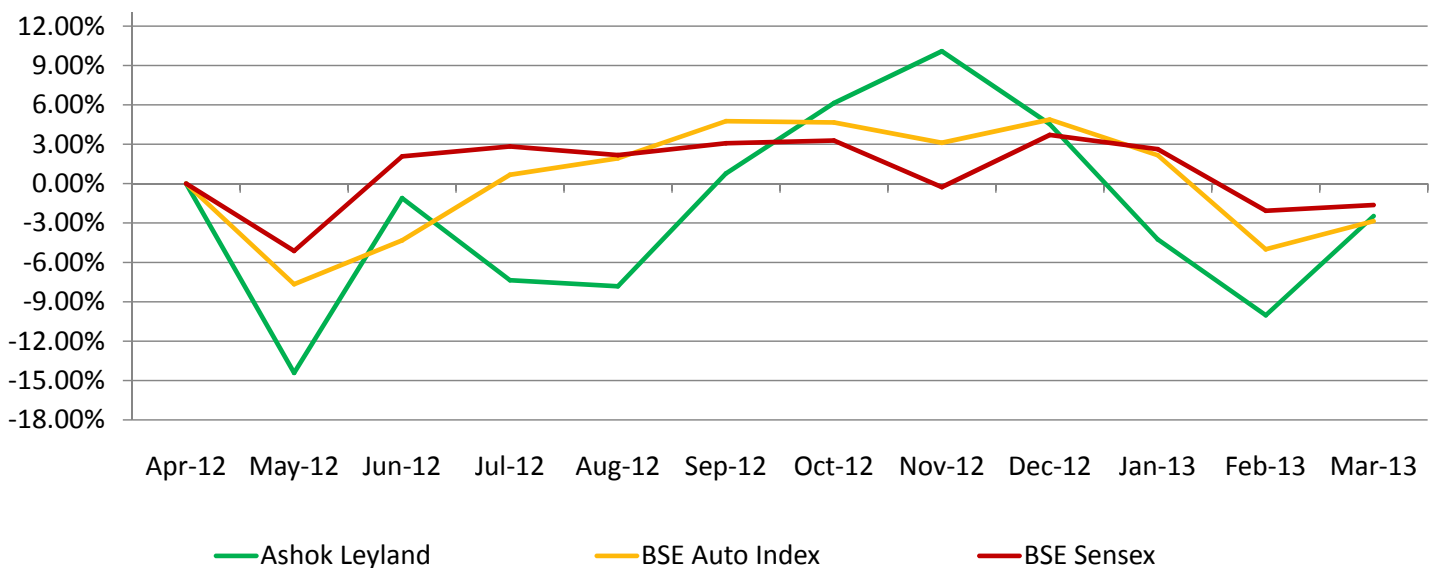
Sales and Profitability Analysis – Standalone Financials



Profitability Ratio Analysis



Stock Performance viz-a-viz Index



Mahindra and Mahindra

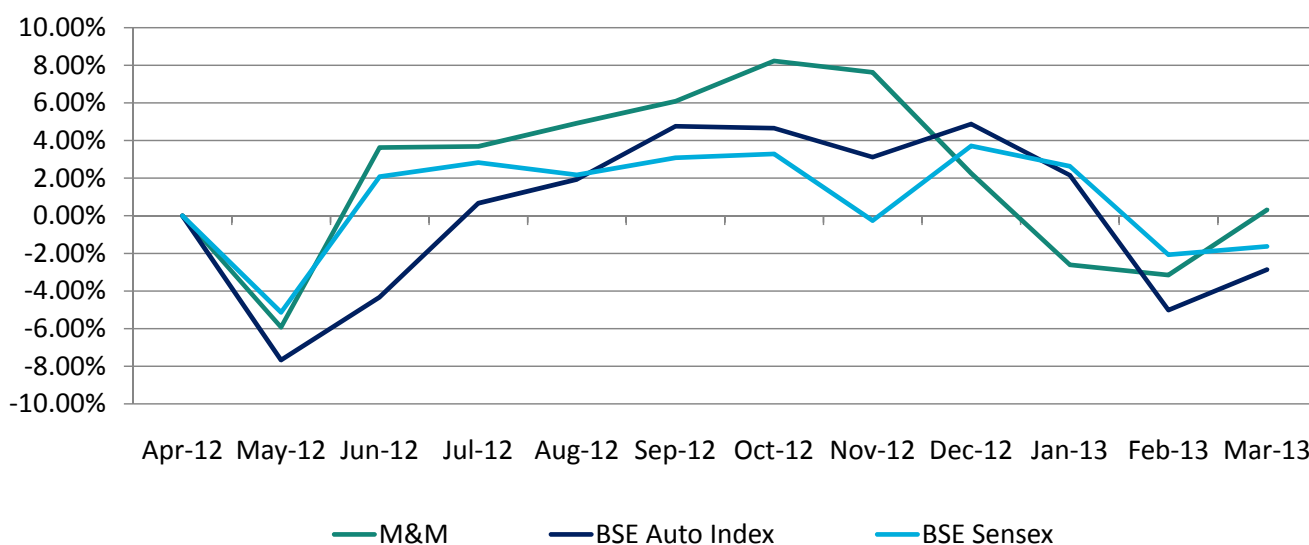
Mahindra & Mahindra Ltd. (M&M Ltd.), India's leading SUV manufacturer reported a 17% growth in its auto sales numbers for the Financial Year 2012-13, with a sales figure of 563373 units as against 483164 units in FY 2011-12.

The company's auto sales numbers for the month of March 2013 stood at 51904 units as against 46919 units during March 2012, a growth of 11%. The company's domestic sales stood at 49225 units during March 2013, as against 44260 units during March 2012, an increase of 11%. The Passenger Vehicles segment (which includes the UVs and Verito) has registered a growth of 13%, having sold 25847 units in March 2013, as against 22961 units during March 2012.

The 4 wheeler commercial segment which includes the passenger and load vehicles registered a sale of 17212 units, while the 3-wheelers segment clocked 4831 units in March 2013. Exports for the month of March 2013 stood at 2679 units.

Even as the domestic tractor sales continued to remained tepid, India's largest tractor maker, Mahindra & Mahindra has posted 30 per cent growth in retail sales in the United States of America for FY-13 selling over 10,000 tractors. The wholesale numbers for the last fiscal grew by 7 per cent.

Stock Performance viz-a-viz Index



Industry Players Performance and Valuation Multiples

Mahindra and Mahindra

Mahindra Two Wheelers Ltd, a subsidiary of Mahindra & Mahindra, is aiming to break even in 2014-15.

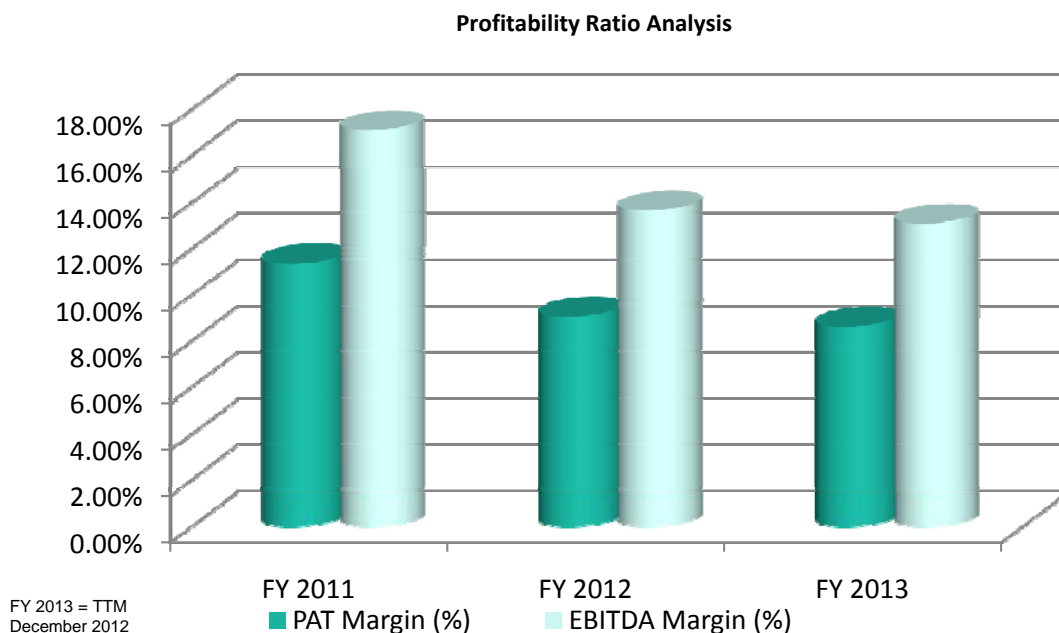
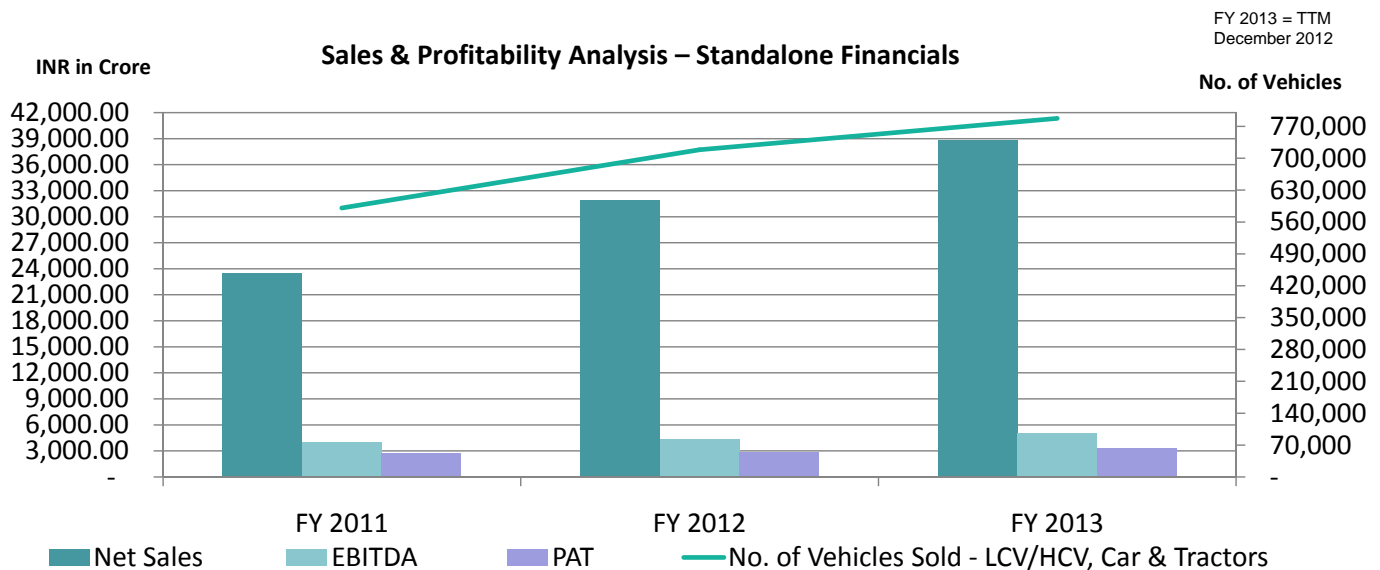
The company has pumped in Rs 100 crore for motorcycles and proposed another Rs 400 crore in the next four to five years.

Mahindra remained optimistic on the motorcycle segment and expected it would surpass scooters sales in the next fiscal.

In 2012-13, the company was projecting sales of 1.2 lakh units of scooters.

The motorcycle sector would register a double digit growth though the market shrank sharply in the past few months. Mahindra expected to introduce four new models in scooters and motorcycles in 2013-14.

In the motorcycle segment the company would introduce 150 cc and 300 cc models





Maruti

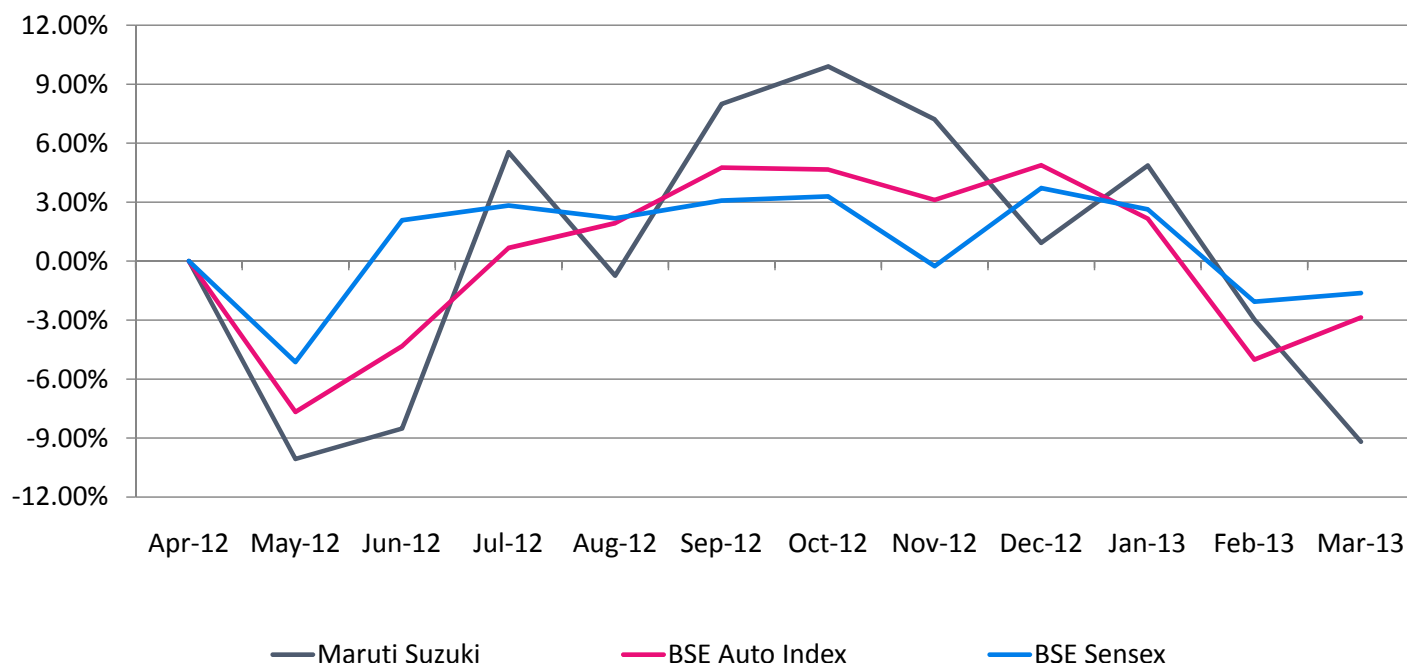
Maruti Suzuki's profits almost doubled over the previous fiscal because of a weaker Japanese Yen and sustained demand for its high-margin diesel cars. India's biggest carmaker by volumes ended the final quarter of financial year 2012-13 on a high, even as the Indian passenger car market registered its lowest growth in a decade, thus marking the Japanese company's local subsidiary as an outperformer in the country.

Net profit for the fourth quarter ended March, stood at Rs 1,147.5 crore compared with Rs 637.5 crore in the year-ago period. Strong performance of the Swift and Swift DZire models and incremental volumes of Ertiga played a big role in the performance.

The trend of increasing profits was visible in the December quarter, and the currency benefits accrued from December onwards. The impact of all this is, thus, more visible in Q4. Price hikes also had an impact.

The cost-reduction and localisation efforts, and the benefit of a favourable exchange rate boosted the company's margins. During the fourth quarter, raw material cost declined 130 basis points as a weak Yen helped improve margins by 120 basis points. The price increase in January added 100 basis points, even as other operating expenses declined 30 basis points.

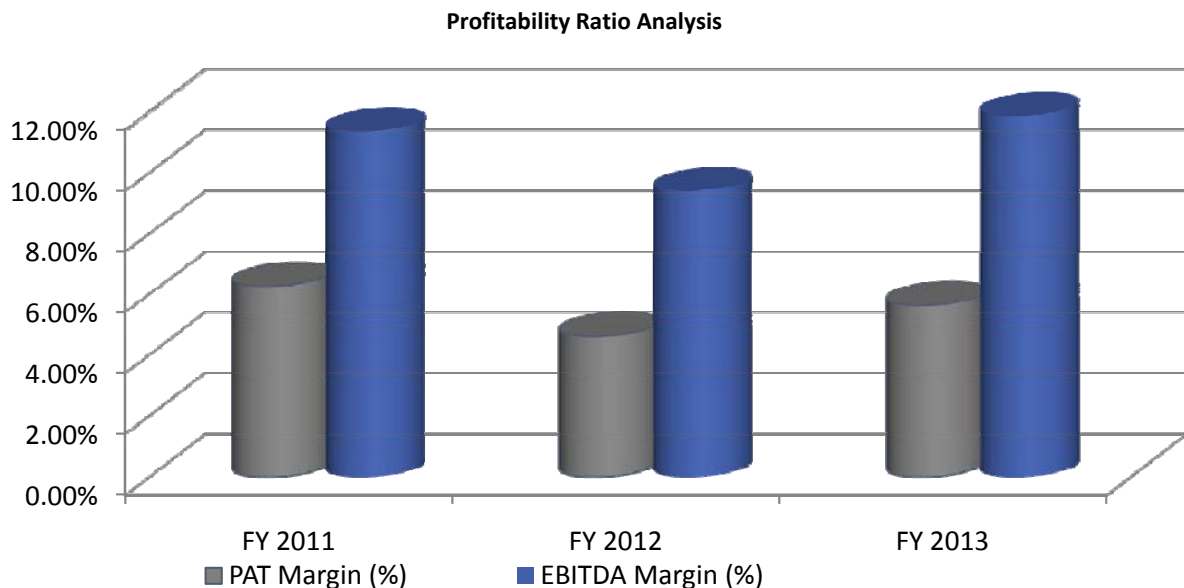
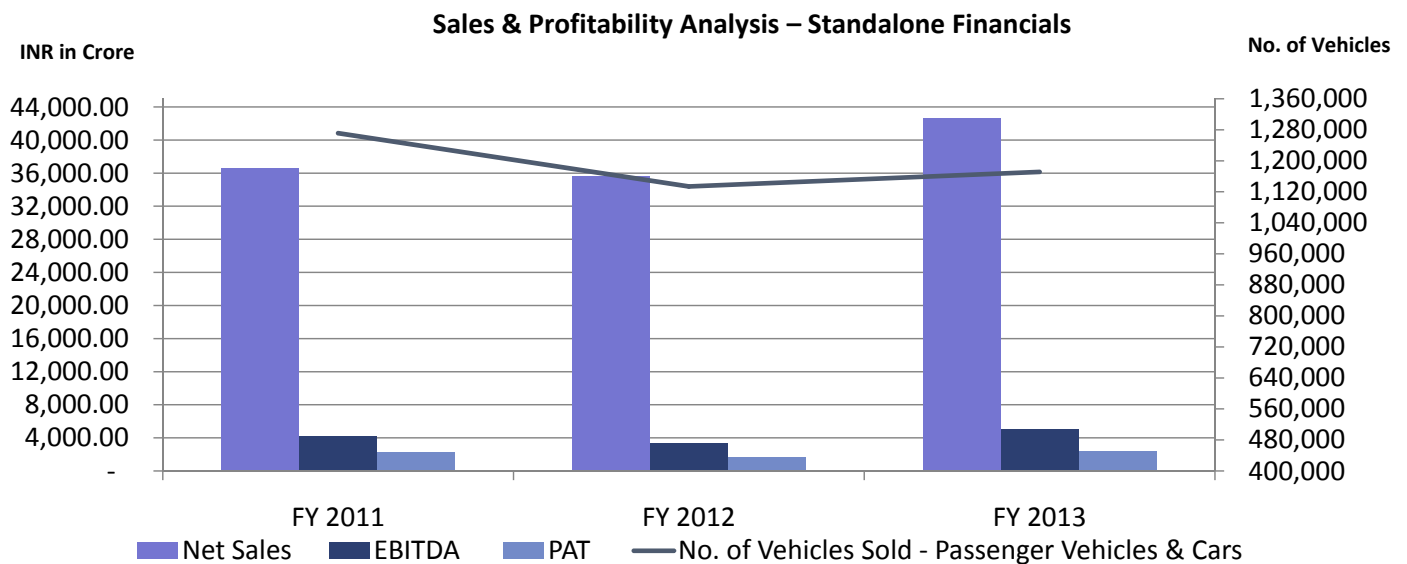
Stock performance viz-a-viz Index



Industry Players Performance and Valuation Multiples

Maruti

The operating margin at 10.6% versus expectations of 9.4% is a positive surprise driven by better pricing and Yen depreciation. For the full financial year 2012-13, standalone net profit stood at Rs 2,300 crore, 40.6% higher than in FY12, whereas net sales increased 21.3% to Rs 42,122.9 crore. Had it not been for the Manesar strike during the financial year, Maruti Suzuki would have significantly outperformed the market in FY13.



Bajaj Auto

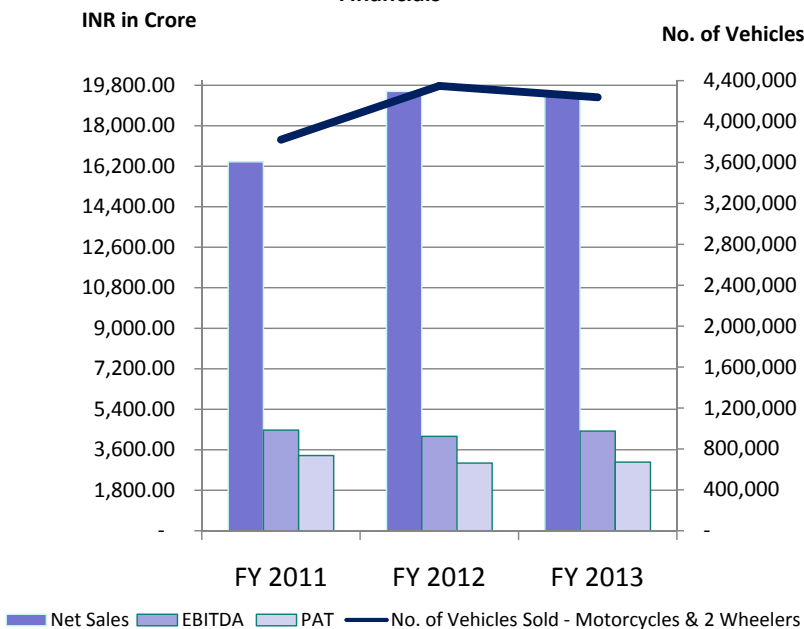
Bajaj Auto has reported good results for the third Quarter ending December, 2012. Net Sales for Q3 FY 2013 stands at Rs.5307.20 Cr; compared to Rs.4817.07 Cr in Q2 FY 13 (+10.17%); and Rs.4839.95 Cr in Q3 FY 13 (+9.65% YoY). For 9-months Dec,2013, the Net sales stands at Rs.15,250.77 against Rs.14,877.54 for 9 m/e Dec,2012. The growth for 9 months of FY 13 is just 2.5% over corresponding period of previous year. This indicates the sluggish growth during current year.

Bajaj Auto has improved its domestic market share to 26.2% this quarter compared with 25.1% a year ago. However, margins slipped to 20.1% in Q3 from 21% a year ago. In six months of the launch of 125cc Discover ST, Bajaj Auto has sold over 2 lakh units and 51,000 units of Pulsar NS.

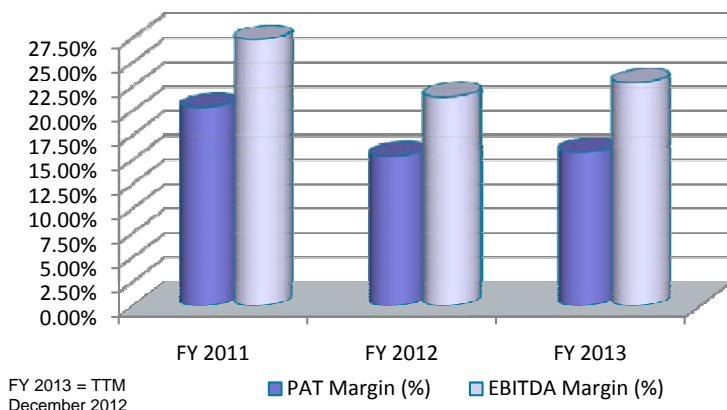
It recorded a growth of 23% in domestic market, higher than the industry growth of 13%. Exports, which contribute almost a third to the company's turnover.

Sales & Profitability Analysis – Standalone Financials

FY 2013 = TTM
December 2012

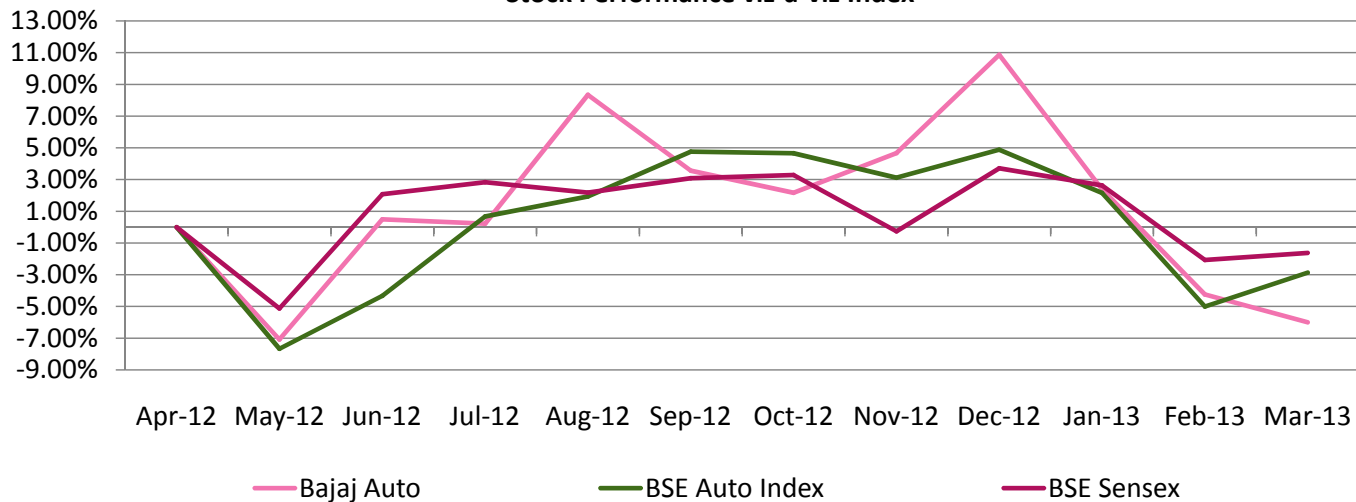


Profitability Ratio Analysis



FY 2013 = TTM
December 2012

Stock Performance viz-a-viz Index



TVS Motor Company

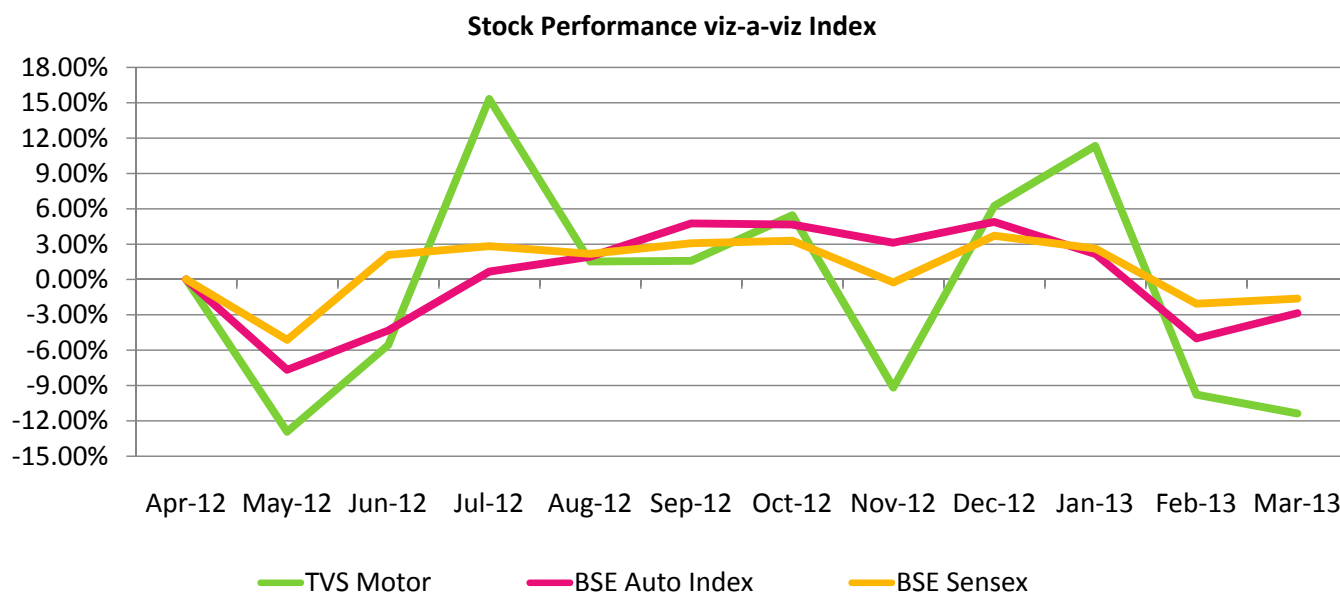
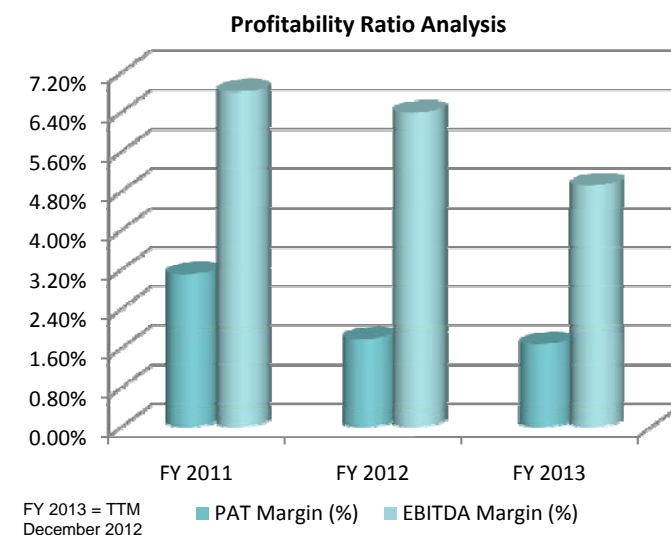
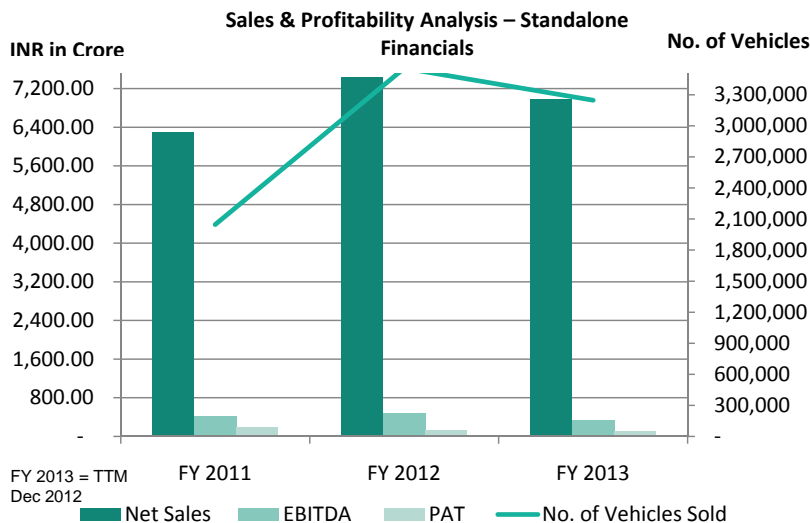
During the year ended March 2013, TVS Motor Company registered overall two wheeler sales of 19.95 lakh units in comparison with 21.47 lakh units of the previous financial year.

Motorcycle sales during the fiscal stood at 7.56 lakh units in comparison with 8.44 lakh units in the previous year. Scooters recorded sales of 4.46 lakh units in comparison with 5.25 lakh units in the previous year.

Three wheeler sales of the company increased significantly from 40,166 units in the previous year to 49,143 units in the year ended 31 March 2013. Exports of the company for the year ended 31 March 2013 stood at 2.11 lakh units as against 2.70 lakh units in 2011-12.

TVS Motor Company and BMW Motorrad have signed a long-term cooperation agreement. The aim of the cooperation is to join forces to develop and produce a new series of motorcycles that will cater to the segment below 500 cubic centimeters.

The company may introduce a new motorcycle and a new scooter during the course of the current financial year. In addition, the company has planned upgrades across the product portfolio, and will also launch a diesel three wheeler during the year.



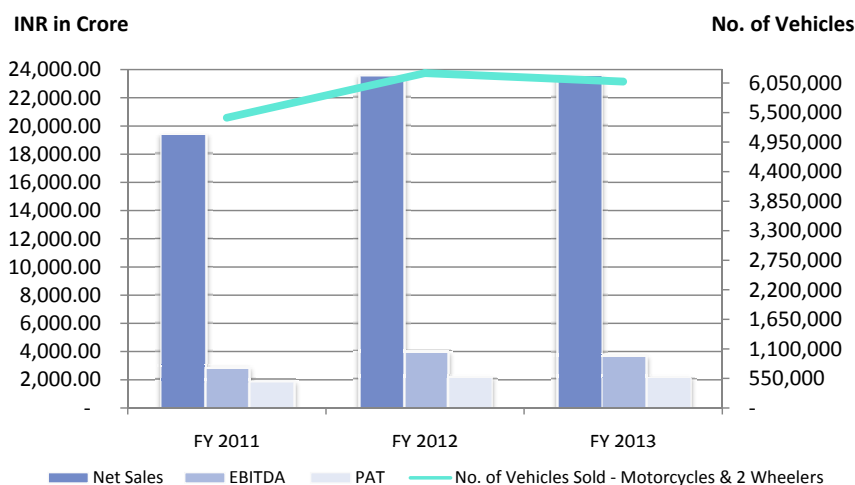
Hero Motocorp

Hero posted decline in the financial results for FY'13 (April 1, 2012 - March 31, 2013). The company's unit sales stood at 60,75,583 two-wheelers which was 62,35,205 units in the FY'12. However, the company survived to keep up some stable net profit by for FY13 with turnover of Rs. 23,582 crore compared to Rs. 23,579 crore turnover in the FY12.

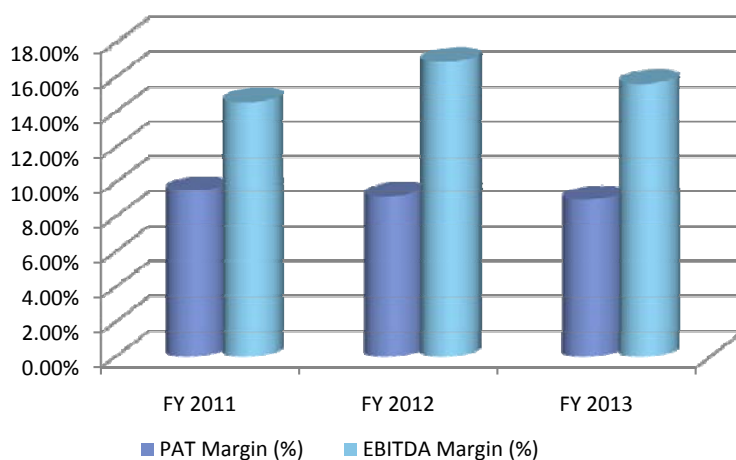
However there is a clear challenge from the Japanese two-wheeler manufacturer, Honda Motor Company's wholly Indian subsidiary, HMSI, which spotted the second place in the Indian two-wheeler industry by beating Bajaj Auto.

Being the industry leader, the company has planned major initiatives to boost the industry sentiment and accelerate growth in the new financial year, mainly through new launches, campaigns, capacity addition and network expansion.

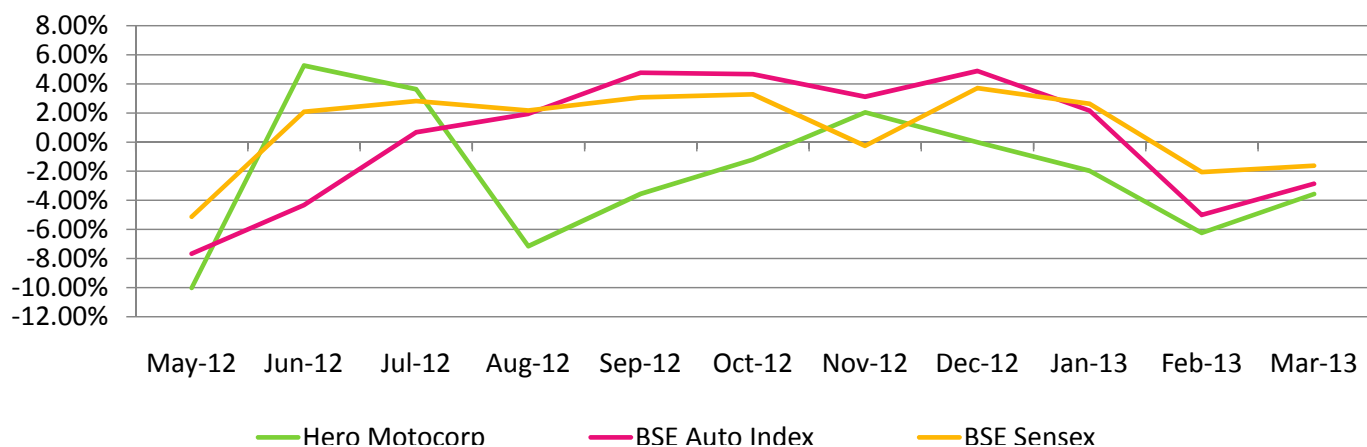
Sales & Profitability Analysis – Standalone Financials



Profitability Ratio Analysis



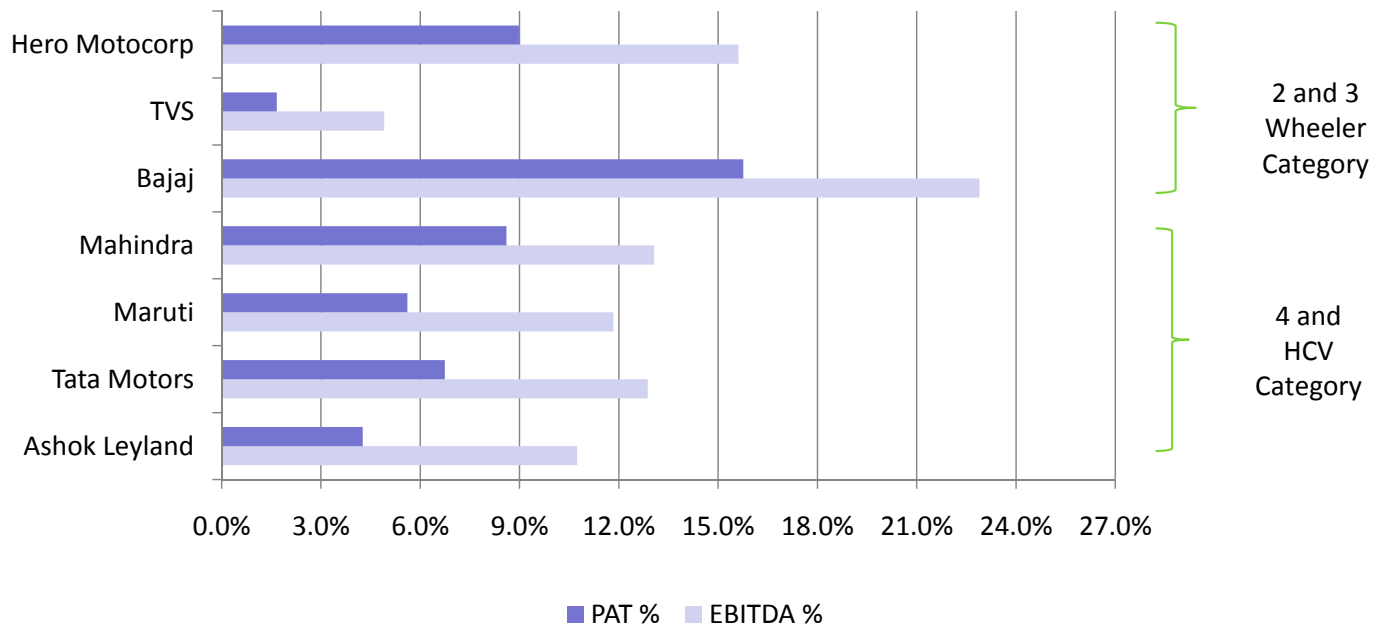
Stock Performance viz-a-viz Index



Industry Players Performance and Valuation Multiples

Comparative Margins – PAT and EBITDA

Comparative Margins – FY 2013



EBITDA margins historically has been higher for 2-Wheeler space compared to LCV, HCV and 4-wheeler manufacturers.

Bajaj Auto has historically posted significant margins and continue to enjoy higher margins than its peers. Hero Motocorp has second highest margins in 2 wheeler segment and across the overall Auto Sector in India. TVS Motors continues to struggle with its volumes and operating margins and has the lowest margins in the sector.

2-wheeler segment has witnessed significant traction in rural sector , largely on account of better distribution network and higher fuel prices.

Among, the LCV/HCV and 4-Wheeler manufactures, there is significant competition and pricing war.

Players like M&M, Tata Motors and Ashok Leyland are fighting rigorously in their segments to capture higher market share. Ashok Leyland and Tata Motors are facing severe pressure in volumes and margins due to slowdown in industrial space.

Maruti on the other is facing stiff competition from players like Hyundai, Toyota, Ford and other foreign players in Passenger Vehicle Space. Maruti, though still with highest market share has witnessed drop in its market share.

Also, due to higher fuel costs, significant inflation and higher interest costs, 4-wheeler segment has been hit hard most. Due to infrastructure and economy slowdown, commercial vehicle segment has seen significant hit in volume traction.

Comparative Margins and EV/Sales Multiple Analysis

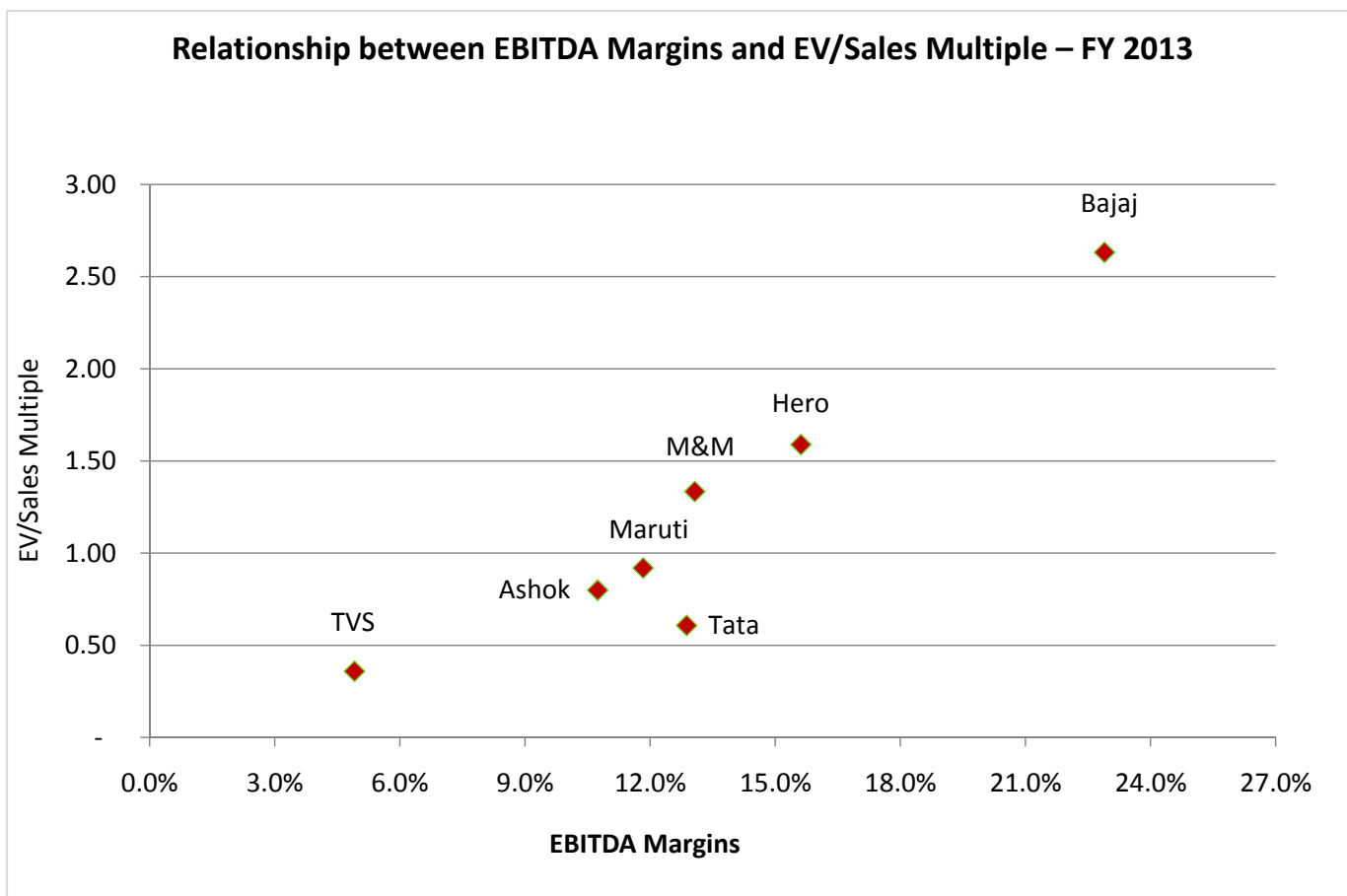
Below chart represent the relationship between EBITDA Margins and EV/Sales Multiple. It is clearly evident that EBITDA margin is a strong factor on how market prices the sales of each company.

Bajaj Auto, the leader in terms of margins, has highest EV/Sales Multiple compared to its peers in its space. The sales multiple is also significantly higher than the other segment manufacturers, which clearly demonstrates that markets are pricing volumes or sales based on their margins.

Players like Maruti, Tata Motors, and Ashok Leyland has EV/Sales multiple in similar range due to similar EBITDA margins despite catering to different market segments. Though, there are competing against each other in many similar product portfolio, market is aware of their niche products or segments.

M&M, on the other hand, the leader in SUV and Tractor markets in India, has multiple higher than Tata and Maruti due to better R&D innovation, product niche and different segment. M&M also has a good tractor market in the US, which enhances the overall margins of the company.

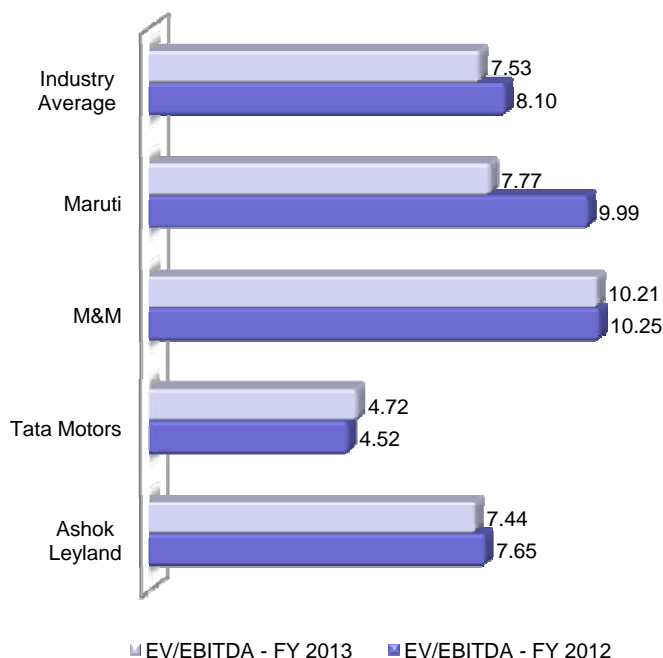
TVS and Hero Motocorp on the other hand are laggards compared to Bajaj. Hero, with margins lying between Bajaj and TVS, has reasonable EV/Sales multiple, however market has priced it significantly lower.



Industry Players Performance and Valuation Multiples

Comparative Margins – EV/EBITDA Multiple

Segment: LCV/HCV/Cars/Tractors



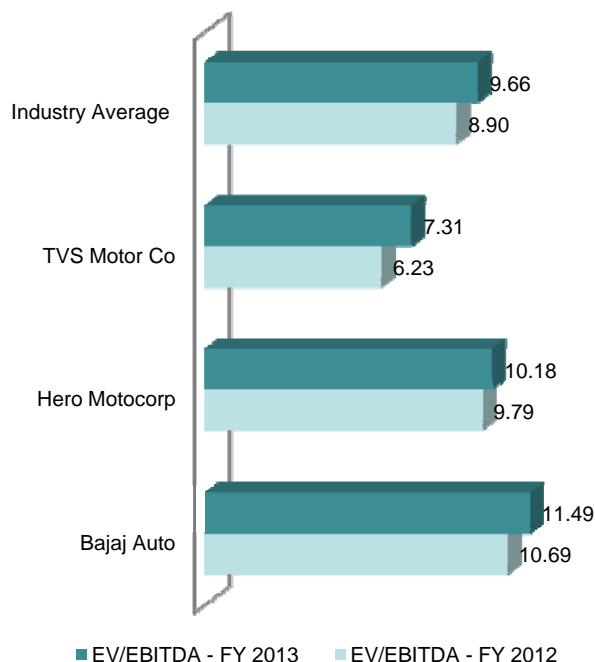
This chart represents the EV/EBITDA Multiple within the CV/Cars/Tractor Segment of Automobile for the two years FY 2012 and FY 2013.

M&M has highest EV/EBITDA Multiple amongst its peers for both the years of FY 12 and FY 13 Also M&M's EBITDA margin of 13.1% is higher than its peer companies like Tata Motor and Ashok Leyland.

Tata Motors has been trading at a significant lower EV/EBITDA Multiple of 4.72x compared to Industry average of 7.53x for FY 13. The reason could be high operating leverage in the luxury car segment like JLR and Lower Volumes

Maruti's EV/EBITDA Multiple has reduced from 9.99x to 7.77x during FY 13 although its margin has improved from 9% in FY 12 to almost 12% in FY 13

Segment - Motorcycle / 2 Wheelers / 3 Wheelers



This chart represents the EV/EBITDA Multiple within the Motorcycle/2 wheelers/3 wheelers Segment of Automobile for the two years FY 2012 and FY 2013.

Bajaj Auto has highest EV/EBITDA Multiple amongst its peers for both the years of FY 12 and FY 13 Also Bajaj's EBITDA margin of 22.9% is higher than its peer companies like Hero Motocorp and TVS.

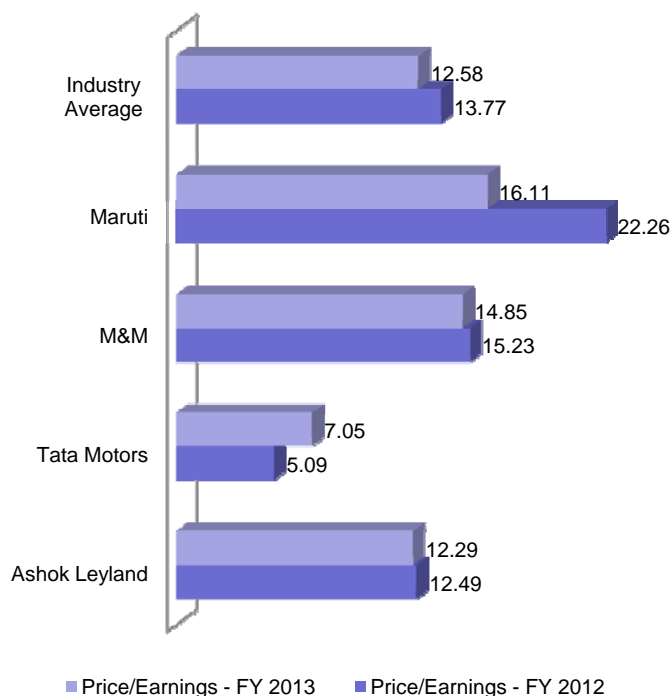
EV/EBITDA multiple of Hero Motocorp has been improved from 9.79x to 10.18x during FY 13. Its EBITDA Margi has declined from 17% in FY 12 to 15% in FY 13 due to pressure on sales volume and increase in raw material prices

EV/EBITDA Multiple of TVS has been significantly low compared to its Industry peers. Its EBITDA Margin of 5% for FY 13 has also been low considerably compared to its peer.

Industry Players Performance and Valuation Multiples

Comparative Margins – Price to Earnings Multiple

Segment: LCV/HCV/Cars/Tractors



This chart represents the Price/Earnings Multiple within the CV/Cars/Tractor Segment of Automobile for the two years FY 2012 and FY 2013.

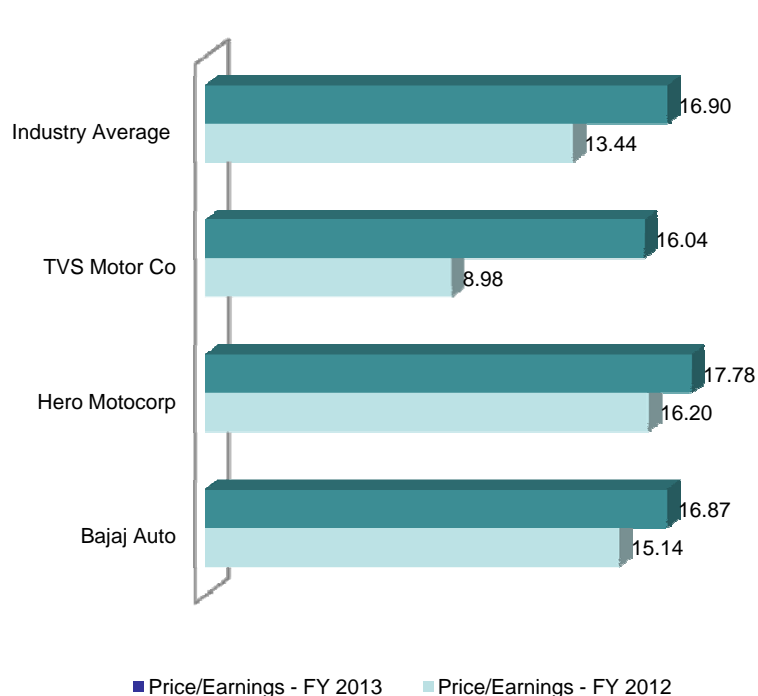
Maruti has highest Price/Earnings Multiple amongst its peers for both the years of FY 12 and FY 13. But its PE multiple has reduced significantly from 22.26x to 16.11x during FY 13.

Tata Motors has been trading at a significant lower PE Multiple of 7.05x compared to Industry average of 12.58x for FY 13.

PE Multiple of M&M is almost in the range of 14x to 16x during FY 12 and FY 13.

PE Multiple of Ashok Leyland is almost in the range of 12x to 13x during FY 12 and FY 13.

Segment: Motorcycle/2 Wheelers/3 Wheelers



This chart represents the Price/Earnings Multiple within the Motorcycle/2 wheelers/3 wheelers Segment of Automobile for the two years FY 2012 and FY 2013.

Hero Motocorp has highest PE Multiple amongst its peers for both the years of FY 12 and FY 13. Its multiple FY 2013 stands at 18x which is higher than average of its peer group companies' PE multiple.

PE Multiple of Bajaj Auto has improved from 15x to 17x during FY 13. Its PAT margin is also stable at 16% for both the years and also highest amongst its peer group companies.

PE Multiple of TVS Motor Company has improved from 9x to 16x during FY 13.

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