

Ground Reality

'LUV' in the air ... but speed-breakers on the ground?

Channel check covering 25 auto dealers in west and north India

Key highlights of interactions with 25 auto dealers in west and north India:

- **CARS:** Expect Maruti to outperform led by Ertiga and diesel variants.
- **2Ws:** Slowdown persists; Hero MotoCorp in brand transition mode.
- **M&HCVs:** Demand sluggish; high dealer inventory and discounts.

We undertook a 2-day road-trip from Ahmedabad to Vadodara, a 120-km stretch, to gauge emerging demand trends in the automobile industry. We met dealers in Ahmedabad, Anand and Vadodara and supplemented the takeaways of this trip with feedback from dealers based in Maharashtra and Punjab. In all, we spoke to over 25 dealers. We present below our key takeaways.

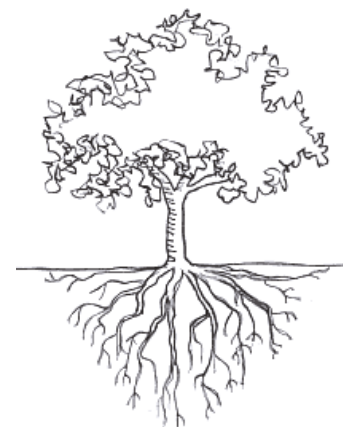
PASSENGER CARS | Maruti to outperform led by Ertiga and higher availability of diesel vehicles: Our channel checks indicate weak volume momentum (excluding Maruti) in April 2012. Dealers cited "pull-forward" of demand in March as one of the reasons for the weakness in April. However, Maruti is doing better than competition led by (1) launch of its new LUV *Ertiga*, and (2) higher availability of diesel vehicles. The better-than-expected response to *Ertiga* also increased footfalls at its dealerships, causing a positive rub-off on sales of other models.

TWO-WHEELERS | Slowdown persists; Hero MotoCorp starts selling 'Hero-branded' Splendor and Passion: Our interactions reveal persistent slowdown in 2W retail sales. This is despite the auspicious day of *Akshaya Tritiya* falling on 24 April this year against 6 May last year. Hero MotoCorp's new scooter, *Maestro*, has received a good response and currently the waiting period is 15-20 days. However, this has led to some cannibalization of *Pleasure* sales. Meanwhile, the company is slowly progressing on the brand transition front; it recently started selling 'Hero-branded' *Splendor* and *Passion* models (Hero Honda earlier). However, most dealers have not seen any meaningful impact from this. Also, Bajaj Auto recently launched a refreshed version of *Discover 100cc*, priced ~INR2,000 lower than the earlier model.

M&HCVs | Weak demand led by price increases and low visibility of deployment; discounts remain high: Demand for M&HCVs in Gujarat remains sluggish on the back of (1) price hikes to pass on 2% higher excise duty, and (2) low visibility on new project activity, a key driver of M&HCV demand. Consequently, dealers are holding high level of inventory, and discounts remain high.

VALUATION & VIEW | Prefer Tata Motors, Maruti, Hero MotoCorp

Auto stocks have outperformed during the last 12 months. Given the positive outlook on interest rates and commodity prices, we expect 4W performance to revive. Prefer **Tata Motors** and **Maruti Suzuki**. Within 2Ws, prefer **Hero MotoCorp**.



2-day road trip from Ahmedabad to Vadodara, spanning 120km



Top picks

Four Wheelers	Maruti Suzuki Tata Motors
Two Wheelers	Hero MotoCorp

Passenger cars

Maruti to outperform the industry led by *Ertiga* and higher availability of diesel vehicles



Compact *Swift Dzire* is cannibalizing *Swift* sales, with the latter's waiting period coming down to just 1-2 months (diesel)



- Our channel checks indicate weak volume momentum (excluding Maruti) in April 2012, as customers brought forward purchases in March, expecting price hikes to pass on higher excise duty in the FY13 budget. However, Maruti is doing better than competition, led by (1) launch of *Ertiga* LUV ("life utility vehicle"), and (2) higher availability of diesel vehicles.
- The industry scenario has changed meaningfully over the last couple of months. While volumes still continue to be skewed in favor of diesel models, the waiting period on diesel variants (excluding Maruti) has come down significantly, with some vehicles being sold at a discount.
- Owing to the low price differential, the new compact *Swift Dzire* is cannibalizing *Swift* sales, with the latter's waiting period coming down to just 1-2 months (diesel) as against 6-7 months in Nov-11. On the other hand, the waiting period for *Dzire*'s diesel variant has increased to 8-9 months.

Low price differential leads to cannibalizing of Swift sales*

Variant	Swift (INR)	Dzire (INR)	Differential (INR)
Lxi	444,618	488,525	43,907
Zxi	568,713	660,227	91,514
Vxi	490,710	566,164	75,455
Ldi	553,984	591,372	37,387
Zdi	676,913	751,848	74,935
Vdi	598,266	667,240	68,974

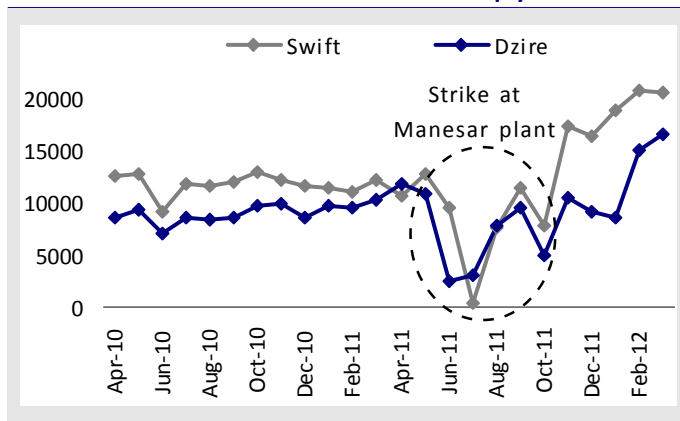
Source: Company; * ex-showroom price, Delhi

Maruti: High waiting on diesel models

Model	Variant	Waiting Period (upto)	Model	Variant	Waiting Period
Swift	Ldi	45 days	Ertiga	Lxi	20 days
Swift	Vdi	60 days	Ertiga	Vxi	20 days
Swift	Zdi	60 days	Ertiga	Zxi	20 days
Dzire	Ldi	9 months	Ertiga	Ldi	9 months
Dzire	Vdi	9 months	Ertiga	Vdi	9 months
Dzire	Zdi	9 months	Ertiga	Zdi	9 months

Source: MOSL, channel checks

Swift and Dzire volumes have increased sharply



Source: SIAM, MOSL

Maruti: Discounts remain at higher levels in April (INR)

Model	Consumer offer	Exchange bonus	Total
A-Star	28,000	15,000	43,000
Alto (P+CNG)	25,000	11,000	36,000
Alto K10	25,000	20,000	45,000
Eeco (all)	9,000	5,000	14,000
Omni	7,000	5,000	12,000
Ritz (P)	15,000	12,000	27,000
Swift (P)	Nil	10,000	10,000
Swift Dzire (P)	Nil	Nil	Nil
SX4	30,000	25,000	55,000
Wagon R	30,000	20,000	50,000
Zen Estilo	28,000	15,000	43,000

Source: MOSL, channel checks

- In contrast, *SX4* diesel, *Ritz* diesel and other petrol models are readily available.
- Overall, pricing power on petrol models remains weak and discounts stayed high in April (although lower than March). Discount levels are higher by 20-25% in Feb-Apr 2012 over Apr 2011-Jan 2012 and are significantly high on Maruti's two volume products - *Alto* (INR25,000 v/s INR19,000 in Dec-11) and *Wagon R* (INR30,000 v/s INR23-24,000 earlier).

Ertiga also increased footfalls at dealerships, thereby having a positive rub-off on other models.

Ertiga is likely to have ~80:20 diesel-petrol mix

- The initial response to the *Ertiga* has been good, with 11,000 bookings in the first 5 days of launch (the management had expected bookings of 5,000/month).
- The better-than-expected response has also resulted in increased footfalls at its dealerships (up 20-25%), thereby having a positive rub-off on sales of other models.
- As per our channel checks, *Ertiga*'s typical customer is a 5-7 member family, looking to buy a hatchback or mid-level sedan. Channel partners also indicated that the *Ertiga* shares its customer profile with individual buyers of *Xylo* and *Innova*. However, *Innova* derives a meaningful proportion of its sales from fleet operators, government and corporate buyers, and hence would not see major impact.
- Currently, the waiting period for *Ertiga*'s petrol variant is 15-20 days and ~9 months for the diesel variant.
- Maruti's inventory remains at normal levels.
- Given that diesel cars form the bulk of MPV sales, we expect *Ertiga* to have a ~80:20 diesel-petrol mix. Since Maruti has a maximum diesel capacity of 0.4m units in FY13, we believe any incremental volumes of *Ertiga* would be at the expense of its other diesel models.

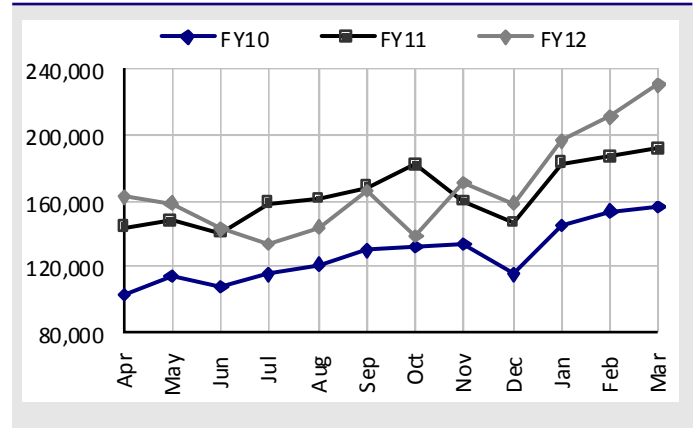
CARS: Segment view

- We expect the passenger car industry to grow by 14% in FY13. We expect Maruti to outperform the industry with 22% volume growth to 1.38m led by (1) the new *Dzire*, (2) strong response to *Ertiga*, (3) higher availability of diesel cars, and (4) softening of interest rates kick-started by recent 50bp rate cut by RBI. Increase in fuel prices is a potential headwind in the near term.

Ertiga has increased footfalls in Maruti's dealerships



Passenger Cars: Domestic volumes (units)



Source: SIAM, MoSL

Two-wheelers

Slowdown persists; Hero MotoCorp starts selling 'Hero branded' *Splendor* and *Passion*

- Our interactions reveal persistent slowdown in retail sales. This is despite the benefit of higher volumes on the auspicious day of *Akshaya Tritiya* on 24 April this year as against May 6 last year.
- Hero MotoCorp's new scooter, *Maestro*, has received good response and currently the waiting period for this model is 15-20 days. However, it has also led to some cannibalization of *Pleasure* sales.

Honda Activa



v/s

Hero MotoCorp's Pleasure ...



+

... and the newly launched Maestro



Brand transition

To



From



- Dealers indicate that retail sales of *Pleasure* have come down significantly due to increased availability of Honda's *Activa*, which continues to be the market leader in the segment. *Activa* is readily available now as against 2 months waiting period in Nov-11. Consequently, retail sales of *Pleasure* have declined over the last 2-3 months, resulting in higher inventory level at dealerships.
- Unlike scooters, Hero MotoCorp's motorcycle inventory remains at normal levels. However, *Impulse* is yet to pick up momentum.
- Hero MotoCorp is gradually moving ahead with its brand transition process; it recently started selling 'Hero-branded' *Splendor* and *Passion* (Hero Honda mother brand earlier).
- While dealers have recently started selling the new Hero-branded bikes, they see no meaningful impact from the brand shift. Though the staff has to explain to the customers about the new branding, they indicated that at most 1-2 customers decline to buy the product because of the new 'Hero' brand.

The new Hero brand first appeared at dealerships ...



... and is now appearing on vehicles as well



Source: MoSL

- Inventory at Bajaj Auto's dealers also remain at normal levels.
- Bajaj has recently launched a refreshed version of *Discover 100cc*, pricing it ~INR2,000 lower than the earlier model. The new model is equipped with 4 gears instead of 5 in the previous model and has AC ignition (instead of DC earlier). There are also some changes in the engine to cut costs. This seems like a strategic move by Bajaj to make the bike more competitive vis-a-vis Hero's *Splendor*.

- While no discounts are being offered by any company, a few dealers are giving freebies with the vehicles.
- New 2W launches include: (1) Honda's *Dream Yuga* by end May 2012, and (2) Bajaj's likely launch of upgrades to *Discover* 125cc and 100cc over the next 4-5 months.

Honda to launch Dream Yuga in May end/June

1st floor of Honda dealership being renovated for Yuga's launch



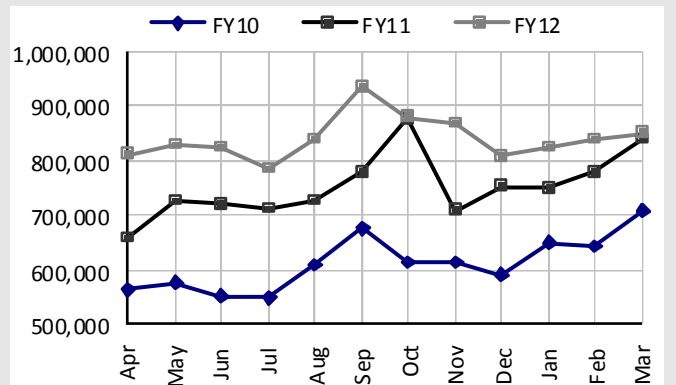
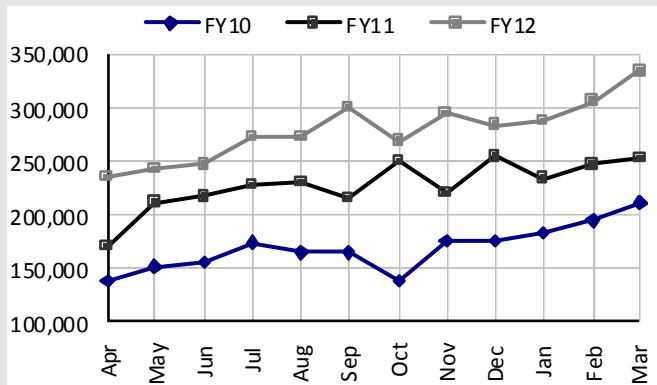
Source: MoSL

2-WHEELERS: Segment view

- While the long-term attractiveness of the 2W segment remains, slowdown in demand in short-term coupled with Honda's market share gain due to capacity ramp-up could result in domestic players underperforming in the short term.
- We expect 2W volumes to grow by 13% in FY13 (in-line with SIAM's guidance of 11-13% growth), with 10-12% growth in domestic market and 18-20% growth in exports. We don't expect any significant shift in market share in FY13, as we expect Honda's ramp-up in motorcycle segment to be gradual.

Strong demand in Scooters & Mopeds (units)

Growth in motorcycles have moderated over the last 4 months



Source: SIAM, MoSL

M&HCVs

Weak demand led by price increases and low visibility on deployment

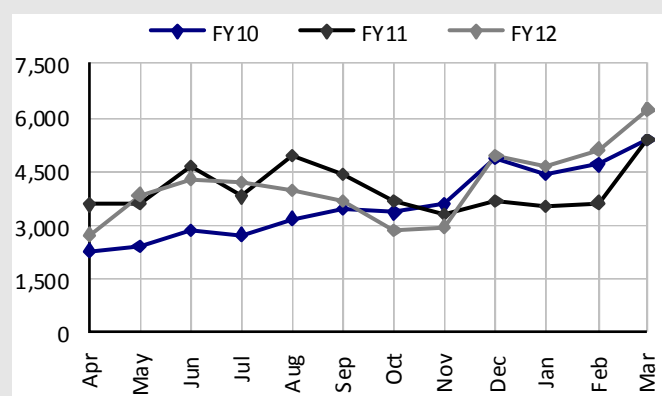
- Demand for M&HCVs in Gujarat is sluggish due to (1) price hikes to pass on 2% hike in excise duty, and (2) low visibility of project activity, a key demand driver.
- Consequently, dealers are holding high levels of inventory.
- Also, discount levels remain high with Tata Motors offering discount of INR60-80,000 per vehicle, and Eicher offering significantly higher discounts.
- Despite increase in cost and fuel prices, freight rates have been stable last year, hurting profitability of fleet owners.
- After strong performance of tippers in FY12, dealers expect this segment to moderate in FY13.

Discount levels remain high and dealers are holding high level of inventory.

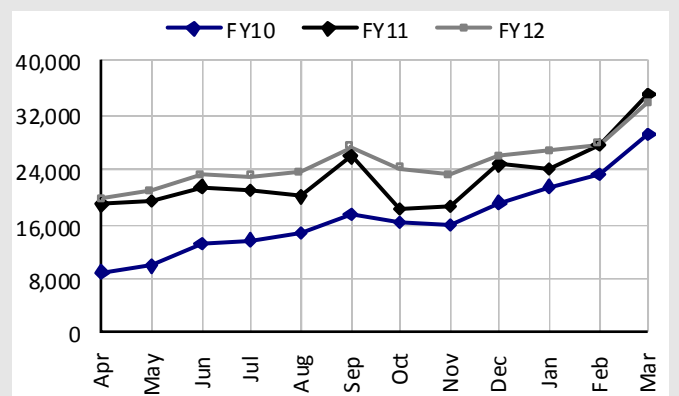
M&HCVs: Segment view

- We expect the M&HCV industry to grow by 8% in FY13 with a large part of growth coming in 2HFY13. We believe CVs would be a key beneficiary of the easing interest rate cycle. We expect the LCV segment to grow 15% in FY13.

M&HCV Buses - Domestic (units)



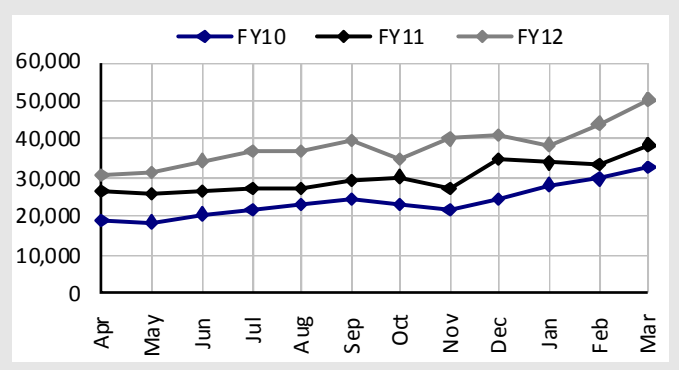
M&HCV Goods- Domestic (units)



Tata Motor's LCVs in the stockyard



LCVs: Domestic (units)



Source: SIAM, MoSL

Valuation and View

Auto stocks have outperformed in last 12 months. With softening of interest rates kick-started by recent 50bp rate cut by RBI and stable commodity prices, we believe that 4-WS could see revival of performance. We prefer **Tata Motors** and **Maruti Suzuki**. Within 2Ws, we like **Hero MotoCorp** as margins are set to improve.

Comparative Valuation

	CMP * (INR)	Rating	P/E (x)			EV/EBITDA (x)			RoE (%)			RoCE (%)		
			FY11	FY12E	FY13E	FY11	FY12E	FY13E	FY11	FY12E	FY13E	FY11	FY12E	FY13E
Bajaj Auto	1,605	Buy	17.8	14.8	13.0	12.2	10.0	8.0	66.7	54.9	47.9	76.1	70.5	64.9
Hero MotoCorp	2,167	Buy	21.6	18.1	15.2	16.1	11.3	8.9	62.5	60.6	54.0	59.2	57.0	61.8
M&M	704	Buy	14.6	15.9	12.9	13.8	13.7	12.6	25.0	20.7	19.2	25.6	22.0	21.3
Maruti Suzuki	1,381	Buy	16.8	25.3	14.7	9.1	12.9	7.5	16.5	9.9	14.9	22.1	12.9	19.6
Tata Motors	312	Buy	11.5	8.8	7.8	6.7	4.7	3.8	47.3	40.8	33.0	24.6	29.8	29.0

* Price as on 26th April 2012

Source: Company/MOSL

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Companies where there is interest

None
Hero MotoCorp
None
None

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