Confederation of Indian Industry

CII Southern Region

Industry and Economic Update

Auto & Auto Components

January-March 2010

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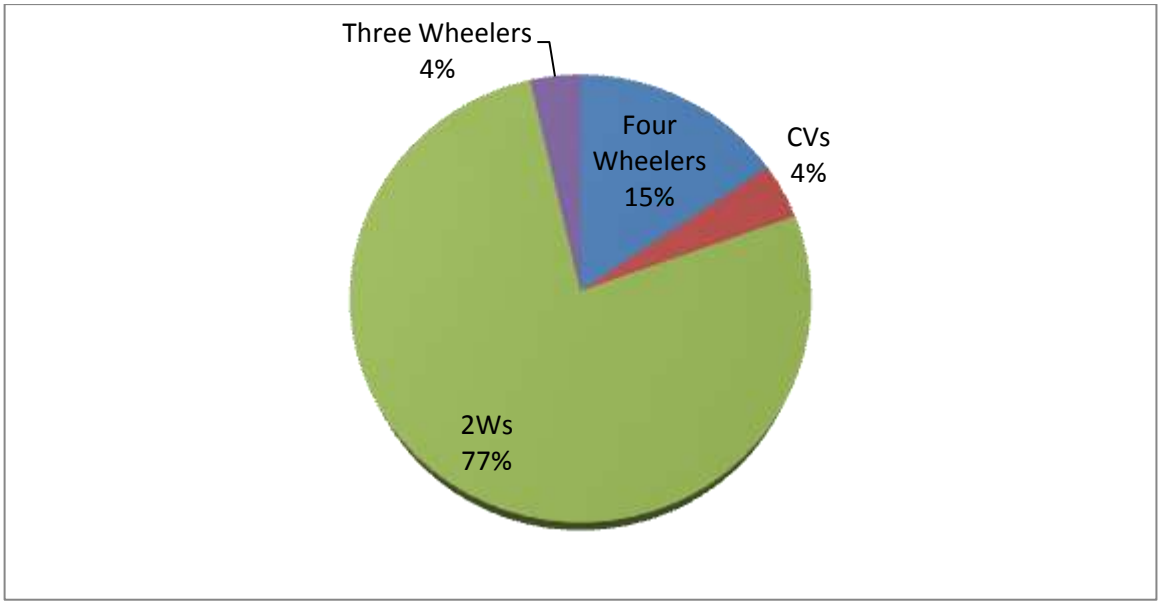
INDUSTRY UPDATE

Auto and Auto Components Industry in India

Auto and its ancillary industry is one of the key sectors in the Indian economy. The auto industry can be broadly divided in four sub sectors: (a) Four Wheelers (4W) (b) Two wheelers or 2Ws (c) Commercial vehicles and (d) Three wheelers (3W). The two wheeler (2W) segment analysed for the purpose of this report includes scooters, motorcycles, and mopeds. Commercial Vehicles (CVs) are an important source of transportation of both goods and passengers. CV comprises medium and heavy commercial vehicles (MHCVs), mainly buses and trucks; and light commercial vehicles (LCVs), mainly tempos and light transport vehicles.

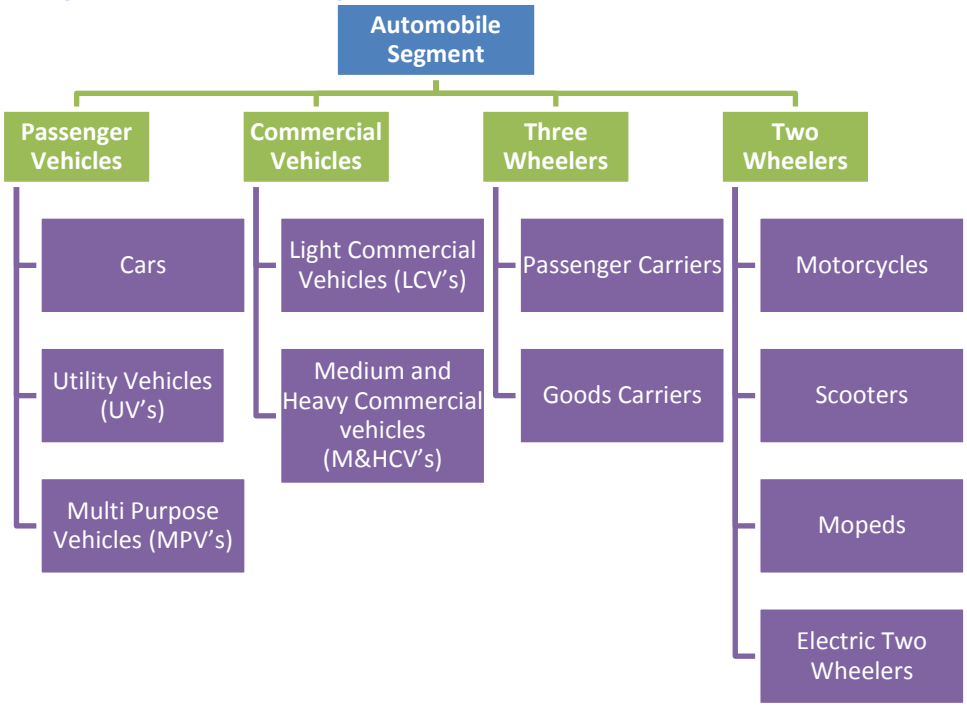
Domestic Market Share in 9MFY2010 (April-December)



Source: SIAM, IMaCS Analysis

2Ws, being the most popular means of personal transport, alone account for about 77% of the total automobile production in India, while passenger vehicles (PVs) account for over 15% of the sales. However, owing to their lower sales realisations, two wheelers account for only around 32% of the sales in terms of value while PVs account for around 62% of the same.

Automobile Segment Product Categories



Source: SIAM, IMaCS analysis

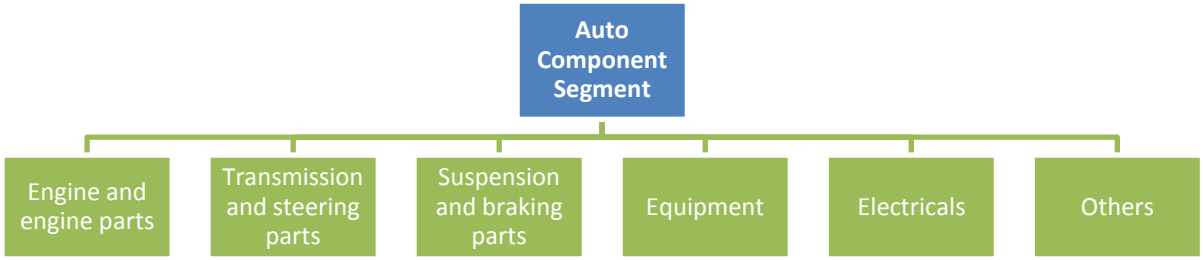
In terms of actual production, a total of around 11.2 million automobiles were produced in FY2009, leading to sales of over Rs. 1,200 billion[1] in FY2009[2]. The production and sales trends for each category in detail are discussed later in the report.

Product Categories of the Auto Components Segment

The Auto Components segment comprises of a host of products demanded by the Automobile segment. These products are classified by major functions as below:

[1] IMaCS analysis

[2] Throughout the document, FY means Fiscal year from April-March. Thus, FY2009 and/or 2008-09 means the period April 2008-March 2009. Statement of year, e.g. 2009 and so on, without a prefix FY means calendar year from January-December. Thus, 2009 or CY2009 means period January-December 2009, and so on. Throughout the document, Q1FY (year) means quarter April-June; and so on. By comparison, 1Q (year) means quarter January-March. Thus, Q1FY2010 means April-June 2009, and so on. 1Q2009 means January-March 2009, and so on. H1FY (year) means period April-September, e.g. H1FY2009 means April-September 2008, and so on. 1H (year) means January-June, e.g. 1H2009 means January-June 2009, and so on.



Source: ACMA, IMaCS analysis

In terms of production of auto components, Engine & engine parts alone account for 31% of the production value of auto components, while Engine & engine parts and Transmission & steering parts together account for about 50% of the same. The total production value is estimated at about Rs. 763 billion in 2008-09, of which the organized sector accounted for Rs. 590-600 billion and the SSI (expand) sector accounted for Rs. 160-170 billion[3].

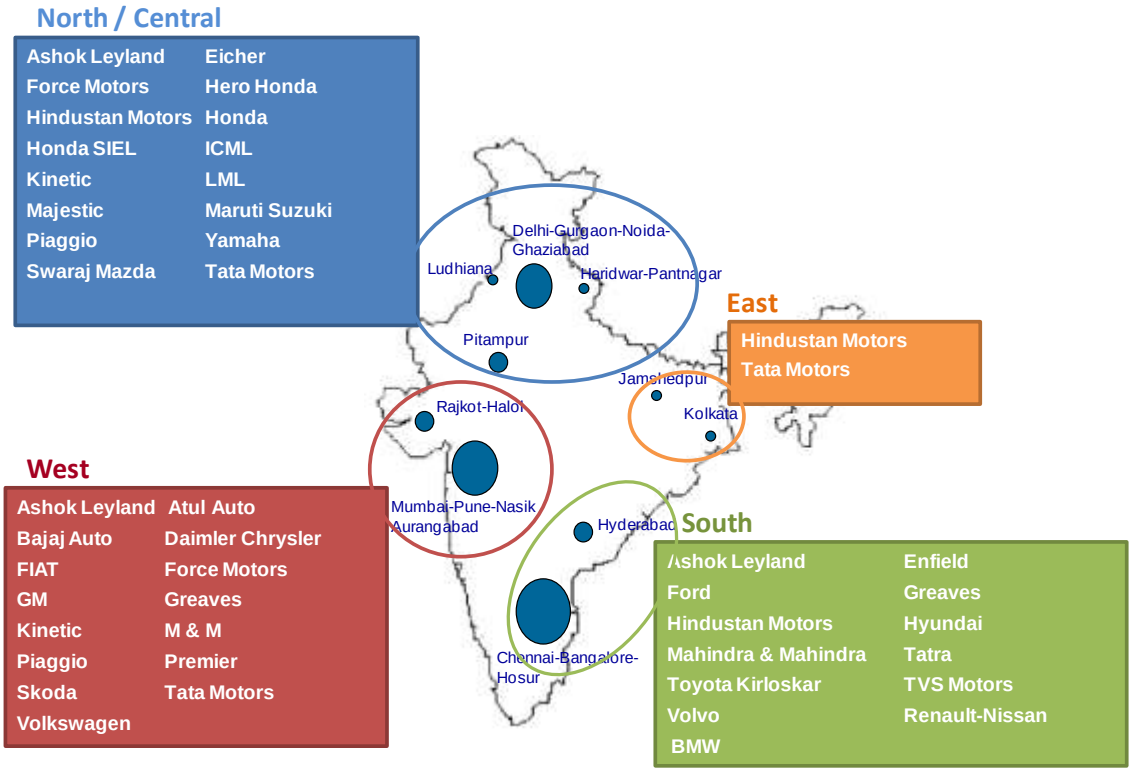
Auto and Auto Components Market in South India

The Automobile Industry, due to its very nature, has grown in clusters. The clusters have OEMs as hubs or centres of growth while the suppliers have formed their bases around the OEMs. There are 3 major automobile and auto component production clusters across the country, namely, Western Region (Mumbai – Pune – Nasik – Aurangabad), Southern Region (Chennai – Bangalore – Hosur) and Northern Region (Delhi – Gurgaon – Faridabad). In the Eastern region, activity in the automotive sector is seen in Jamshedpur and Kolkata, but the development in this region has been to a lesser extent than in the others.

The following map shows the automotive clusters in India:

[3] Approximation, using the same breakup of organized and unorganized sector as in 2004-05 and applying it to the total production of Rs. 760 billion of Auto Components in 2008-09.

Geographical Map of the Automotive Clusters in India

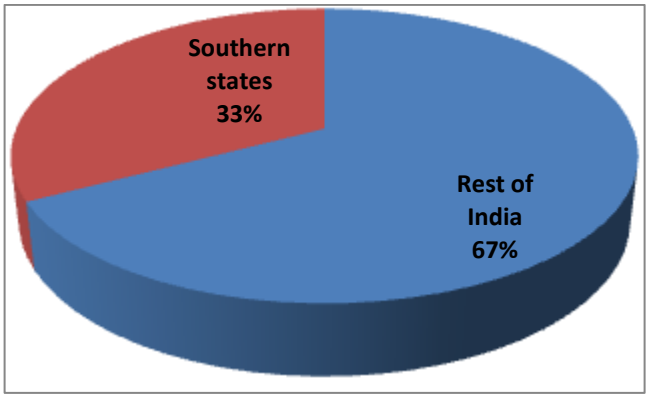


Source: IMaCS analysis

According to SIAM member list, there are 46 registered OEMs in India. Out of these 15 are located in the southern states of the country. This shows that one third of the concentration of the auto industries in India is in the four Southern states only.

Regional Distribution of Auto Companies in India

(percent)



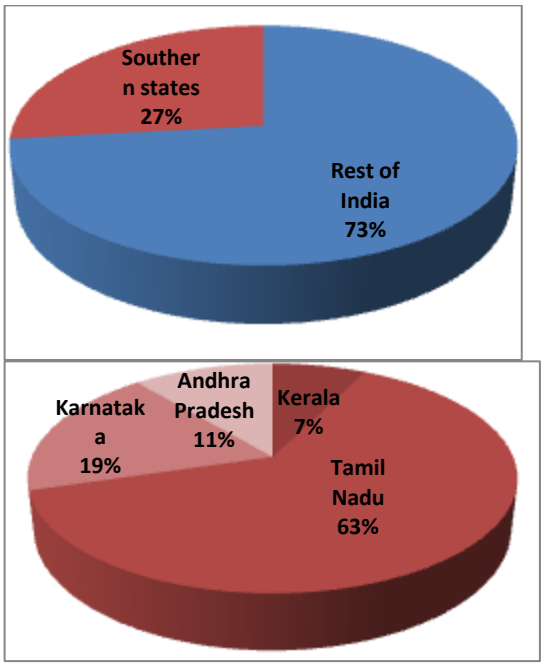
Source: Capital Line, IMaCS Analysis

Share of SSI Sector in the Auto Components Segment

Out of the total, about 77% of players in the Auto Component segment are in the organized sector while the remaining 23% are in the SSI sector.

In the organised sector, key auto component manufacturers include Brakes India Ltd., Bosch Chassis Systems India Ltd., Sona Koyo Steering Systems Ltd., Spicer India Ltd., Automotive Axles Ltd., Sundram Fasteners Ltd., Wheels India Ltd., Jay Bharat Maruti Ltd., Motherson Sumi Systems Ltd., Subros Ltd., Pricol Ltd., Bosch Ltd., Bharat Forge Ltd., Amtek Auto Ltd., Federal-Mogul Goetze (India) Ltd., Ucal Fuel Systems Ltd., Lucas-TVS Ltd. and Denso India Ltd.

Regional Distribution of Auto Ancillary Companies in India



In the organised sector, 27% of the companies are located in the Southern region of the country, amongst which the maximum are situated in Tamil Nadu, due to the concentration of the auto companies in that region.

RECENT DEVELOPMENTS

Automotives

VW to Acquire Stake in Suzuki

Volkswagen (VW) has confirmed that it is negotiating with Suzuki to acquire a 19.9% stake to Suzuki. VW has agreed to pay Suzuki ¥225.5 billion (US$2.5 billion) for the stake. Suzuki will sell the 19.9% stake to VW and will then use half the proceeds to buy shares in VW. VW has outlined the rationale behind the acquisition as satisfying increasing demand for smaller cars and for powertrains with higher fuel efficiency and lower CO2 output. VW is also looking to build a larger footprint in India, South-East Asia, Japan and India, where Suzuki has a strong presence. The alliance will potentially give VW access to production facilities in the region and will allow access to significant additional R&D resources to expand its model range in these markets. There could also be some form of collaboration in the Indian market, where VW has established its own manufacturing presence. Suzuki could benefit from VW's advanced low-emission powertrain technology represented by its BlueMotion range of vehicles, while it will also gain access to the huge development resources the VW Group has been dedicating to alternative powertrain technology, such as hybrids, clean diesel and hydrogen fuel cell vehicles, as well as VW's recently established electric passenger car division. It is also likely that VW and Suzuki could collaborate on a new kei car/A–segment platform that could form the basis of the next generation Up! and a new Suzuki city car, or indeed a new budget global A-segment car, which could serve the Asian and South American markets. The acquisition of the Suzuki stake takes VW a step closer to realising its `Strategy 2018' goal of overtaking Toyota as the world's biggest carmaker by sales volume. If the VW Group's and Suzuki's global sales volumes forecast for 2009 are combined, they are estimated at 8.1-8.2 million units, which is in excess of the 7.04 million units forecast for Toyota in 2009.

Turnaround at Tata Motors' Jaguar Land Rover Unit (JLR) Unit

TML has revealed that its UK-based Jaguar Land Rover (JLR) unit booked an operating profit during Q2FY2010. JLR achieved a profit of £41.3 million (US$68.2 million) in the period, compared with a £34-million loss in the previous quarter. It also managed to narrow its net losses to £60 million. The rise in profitability coincided with a (qoq) increase in global wholesales of around 23% to 44,300 units, although retail volumes remained flat at around 47,100 units against 46,800 units, with Land Rover proving to be the stronger of the two. Overall, its sales revenues for the quarter stood at £1.42 billion.

The improvement is partly attributable to the continued improvement in the global economy, which has seen demand for both passenger cars and trucks (at least in developing markets) recording gains. Further, the cost-cutting strategy for the JLR side of the business already seems to have had a positive effect. TML has been working with consultants from both KPMG and Roland Berger to reduce its expenditure. TML also plans to cut the number of plants it has in the UK, with JLR expected to shut one plant by 2014.

Maruti Suzuki Launches New Car in January 2010

Maruti Suzuki has launched a new car named Eeco in January 2010. The Eeco is a five-door, C segment vehicle, which has been specifically designed for India. Eeco has a 1200 cc engine delivering 73 bhp and torque of 101 Nm. The engine will meet BS IV Emission norms. The vehicle has been priced at Rs. 0.258 million (for the non-air-conditioned or AC version), ex-showroom Delhi. The vehicle comes with an option of 7-seater (Rs 0.271 million, non-AC) or 5-seater (Rs. 0.289 million, with AC). The company also showcased an electric version of the Eeco, called `Eeco Charge', at the recently held Auto Expo in Delhi. The car however, will not go into commercial production.

GM Launches Chevrolet Beat, Planning a 800 cc Version of Chevrolet Spark

GM has launched the 1200 cc Chevrolet Beat in January 2010. The Beat comes in three trim levels of 1.2, 1.2LS and 1.2 LT and prices start at Rs. 0.334 million. GM is also working on a stripped down version of the Spark to take on the Alto, the largest selling car from the Maruti Suzuki stable. The new variant of the Spark would come with a 800cc engine, the same as Alto's. The Spark now comes with an 1100 cc engine.

Toyota Launches the Prius

Toyota Kirloskar launched the Prius in India at the Auto Expo 2010. The newly launched Toyota Prius is powered with company's latest technology named Toyota Hybrid System II, which also known as Hybrid Synergy Drive (HSD). The main features of the Prius includes a 1.8 litre petrol engine, 2ZR FXE engine and 136PS of bhp, HSD, electrically controlled CVT (Continuously Variable Transmission), Electronically Controlled Shift Lever, Regenerative braking, etc. The Prius will be available in India in three modes, which includes Power, Eco and Electric vehicle mode (battery). However at present, only two models will be available on sale. These two models of Toyota Prius are priced at Rs. 2.655 million and Rs. 2.786 million, ex-showroom, New Delhi.

Auto Components

Bharat Forge To Expand Non-Automotive Business

Bharat Forge plans to raise up to US$150 million during 2010 to expand its non-automotive business. The company will use a mix of instruments such as non-convertible debentures with warrants, rights issue and share sale to institutions. Bharat Forge expects to increase contribution from the non-automotive business to 60% by 2015.

JK Tyre looks to set up radial unit in TN

JK Tyre could soon set up shops near Chennai. The New Delhi-based corporate group has held preliminary discussions with the Tamil Nadu government as part of evaluating possible locations to establish a car radial facility. The company is considering TN and Karnataka to house its greenfield unit. JK Tyre has been scouting for land in the Sriperumbadur belt so that it could be located close to the OEs in the bustling auto corridor. The project would entail an investment of Rs 1,600 crore in phases.

TN Emerging as Tyre Manufacturing Hub

According to official estimates, a copious investment of nearly US$1 billion has already been pumped into the State by leading tyre companies. Apollo Tyres, ATC Tires, MRF, Dunlop and TVS Srichakra are some of those who have made huge investments in the state. Already, investments of Rs. 44 billion are either in the partial completion or under implementation stage this year, the official said.

Recently, the state government gave approval to Michelin to set up a Rs. 40 billion greenfield project near Chennai. It also cleared the proposal of Apollo Tyres to scale up investment at its upcoming radial tyre project at Oragadam from Rs. 5 billion to Rs. 21 billion. With the vehicle manufacturers keen on having more than one supplier, the tyre projects would mainly cater to the OEM demand. Later, the well developed port facilities in the State would encourage them to tap the export markets. The key raw material—rubber—can be sourced from Kerala and Kanyakumari or imported.

Bridgestone is also in advanced stages of negotiation to formalise its pact with TN. Recently, J K Tyre also noted that TN figured among the prospective locations for its expansion. Apollo Tyres is building a radial tyre unit on 120 acres at Oragadam. MRF has planned to invest Rs. 14 billion at Tiruvottiyur, Arakkonam besides the new project at Perambalur. Dunlop has also re-started its Ambattur plant in the city with plans to invest Rs. 2.5-3 billion. TVS Srichakra has also has lined up Rs. 1.5-2 billion for expansion.

PRODUCTION AND CONSUMPTION

Production

The cumulative automotive production data for April-December 2009 shows production growth of 20.1% over April–December 2009. The high growth was partly attributable to the base effect, and also because of an accelerating recovery. Following two quarters of decline during Q3FY2009 and Q4FY2009, production growth has increased from 9.5% (yoy) in Q1FY2010 to 12.6% (yoy) in Q2FY2010, and to 41.3% (yoy) in Q3FY2010.

India's Automotive Production

Excluding tractors

9MFY	Volume (thousands) 2009	2010	Growth (%) 9M FY2010	Q1 FY2010	Q2 FY2010	Q3 FY2010
Four Wheelers (4Ws)	**1,335**	**1,662**	**24.5**	**6.2**	**20.4**	**52.1**
PVs	1,102	1,364	23.9	7.2	19.3	47.7
UVs	159	192	21.3	-8.4	16.7	87.0
MPVs	75	105	41.5	30.3	45.8	65.6
CVs	**327**	**377**	**15.1**	**-19.5**	**4.4**	**95.4**
MHCVs	157	162	2.9	-43.2	-5.5	127.5
LCVs	170	215	26.4	9.2	12.7	73.9
Two Wheelers (2Ws)	**6,349**	**7,600**	**19.7**	**12.3**	**11.7**	**37.6**
Motorcycles	5,128	6,135	19.6	9.7	11.1	42.0
Scooters	878	1,041	18.7	25.9	12.7	18.6
Mopeds	324	421	30.1	23.2	28.3	39.0
Electric	20	3	-87.3	-14.3	-96.6	-100.0
Three Wheelers (3Ws)	**380**	**440**	**16.0**	**2.7**	**12.1**	**32.2**
Passenger Carriers	318	376	18.1			
Goods Carriers	61	65	5.5			
Total	**8,391**	**10,079**	**20.1**	**9.4**	**12.7**	**41.3**

PV: passenger vehicles; UV: utility vehicles; MPV: multipurpose vehicles: MHCV: medium and heavy commercial vehicles; LCV: light commercial vehicles; Source: SIAM, Compiled by IMaCS

In January 2010, overall production grew by 53% (yoy). Some of this exceptionally high growth is attributable to the base effect with significant production declines during October 2008 to January 2009. However, even on an absolute level, production reached a historical high of 1.27 million in January 2010.

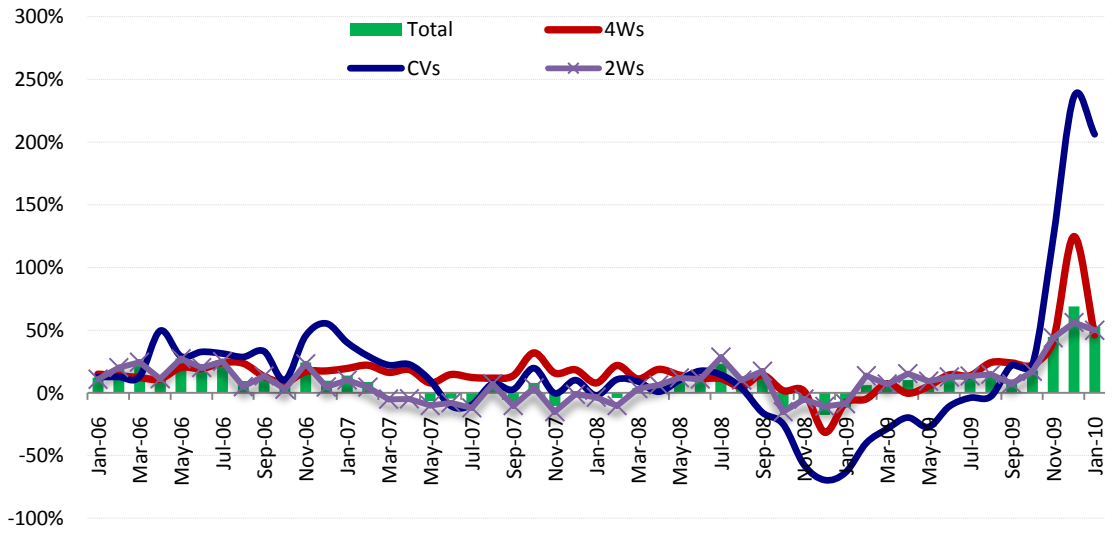
Domestic Automotive Production Growth

Percent	Q1 FY2010		Q2 FY2010		Q3 FY2010	
	1-year	2-year	1-year	2-year	1-year	2-year
4Ws	**6.2**	**10.4**	**20.4**	**15.1**	**52.1**	**18.1**
PVs	7.2	10.4	19.3	16.3	47.7	20.3
UVs	-8.4	4.9	16.7	5.4	87.0	3.3
MPVs	30.3	23.8	45.8	22.6	65.6	19.9
CVs	**-19.5**	**-6.3**	**4.4**	**2.2**	**95.4**	**-1.7**
MHCVs	-43.2	-20.3	-5.5	-9.1	127.5	-7.0
LCVs	9.2	7.7	12.7	13.3	73.9	3.9
2Ws	**12.3**	**11.1**	**11.7**	**14.9**	**37.6**	**10.9**
Motorcycles	9.7	11.0	11.1	15.3	42.0	10.1
Scooters	25.9	12.7	12.7	12.8	18.6	13.8
Mopeds	23.2	8.5	28.3	16.4	39.0	19.1
Electric	-14.3	-15.3	-96.6	-73.1	-100.0	-100.0
3Ws	**2.7**	**-1.9**	**12.1**	**9.7**	**32.2**	**13.4**
Total	**9.4**	**9.6**	**12.7**	**14.1**	**41.3**	**11.5**

Source: SIAM, Compiled by IMaCS

Monthly Automotive Production Growth

Yoy



Source: SIAM, Compiled by IMaCS

Domestic Sales

PVs segment during April-December 2009 grew at 23.8% over same period last year. Passenger Cars grew by 23.8%, Utility Vehicles (UVs) had a growth of 18.6% and Multi Purpose Vehicles (MPVs) grew by 35% in this period.

India's Domestic Automotive Sales

Excluding tractors

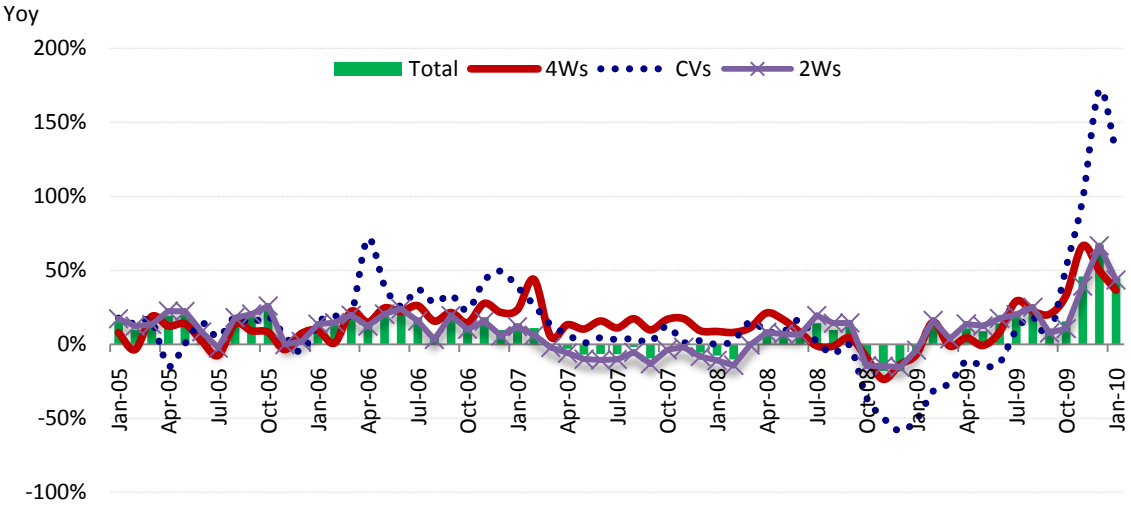
	Volume (thousands)		Growth (%)			
9MFY	2009	2010	9M FY2010	Q1 FY2010	Q2 FY2010	Q3 FY2010
Four Wheelers (4Ws)	**1,105**	**1,368**	**23.8**	**3.8**	**23.7**	**48.5**
PVs	865	1,071	23.8	4.7	25.4	44.3
UVs	163	193	18.6	-6.9	14.9	65.9
MPVs	77	104	35.0	19.1	24.6	67.3
CVs	**288**	**353**	**22.3**	**-12.9**	**11.1**	**98.4**
MHCVs	143	156	9.7	-36.4	-1.5	132.3
LCVs	146	196	34.6	16.0	23.5	75.2
Two Wheelers (2Ws)	**5,571**	**6,779**	**21.7**	**14.5**	**16.8**	**35.3**
Motorcycles	4,366	5,340	22.3	13.5	16.3	39.7
Scooters	864	1,019	17.9	18.3	18.3	17.0
Mopeds	319	417	30.8	21.9	30.5	40.2
Electric	22	3	-86.1	-57.6	-93.8	-95.7
Three Wheelers (3Ws)	**260**	**322**	**23.7**	**6.9**	**17.1**	**51.4**
Passenger Carriers	197	258	30.9			
Goods Carriers	63	64	1.3			
Total	**7,224**	**8,821**	**22.1**	**11.2**	**17.6**	**39.7**

Source: SIAM, Compiled by IMaCS

Cumulative sales of CV segment finally recovered in July 2009 after continuous declines. Since then, as can be seen from the table above, there has been a significant acceleration. The segment grew at 22.3% (yoy) during 9MFY2010 as compared to the same period last year. While domestic MHCV sales increased 9.7% (yoy), LCVs grew at 34.6%. In Q3FY2010, CVs sales grew by 98.4% (yoy). M&HCV grew by 132.3% (yoy) and LCV grew by 75.2% (yoy).

3Ws sales recorded a growth rate of 23.7% (yoy) in 9MFY2010. While Passenger Carriers grew by 30.9% (yoy) during 9MFY2010, goods carriers increased at 1.3% (yoy). 2W domestic sales registered a growth of 21.7% during April-December 2009. Mopeds, Scooters and Motorcycles grew by 30.8%, 17.9% and 22.3% respectively. Electric two wheelers segment registered a decline of 86.1% (yoy).

Monthly Domestic Automotive Sales Growth



Source: SIAM, Compiled by IMaCS

Domestic Automotive Sales Growth

Percent	Q1 FY2010		Q2 FY2010		Q3 FY2010	
	1-year	2-year	1-year	2-year	1-year	2-year
4Ws	**3.8**	**10.4**	**23.7**	**15.1**	**48.5**	**18.1**
PVs	4.7	10.4	25.4	16.3	44.3	20.3
UVs	-6.9	4.9	14.9	5.4	65.9	3.3
MPVs	19.1	23.8	24.6	22.6	67.3	19.9
CVs	**-12.9**	**-6.3**	**11.1**	**2.2**	**98.4**	**-1.7**
MHCVs	-36.4	-20.3	-1.5	-9.1	132.3	-7.0
LCVs	16.0	7.7	23.5	13.3	75.2	3.9
2Ws	**14.5**	**11.1**	**16.8**	**14.9**	**35.3**	**10.9**
Motorcycles	13.5	11.0	16.3	15.3	39.7	10.1
Scooters	18.3	12.7	18.3	12.8	17.0	13.8
Mopeds	21.9	8.5	30.5	16.4	40.2	19.1
Electric	-57.6	-15.3	-93.8	-73.1	-95.7	-100.0
3Ws	**6.9**	**-1.9**	**17.1**	**9.7**	**51.4**	**13.4**
Total	**11.2**	**9.6**	**17.6**	**14.1**	**39.7**	**11.5**

Source: SIAM, Compiled by IMaCS

4W—Recent Trends

After a period of significant growth during FY2005-08, India's 4W production and domestic sales growth moderated significantly in FY2009, before recovering significantly from Q2FY2010. However, export growth has moderated. Domestic sales of 4W increased 23.8% (yoy) in 9MFY2010, with an increase of 48.5% (yoy) in Q3FY2010, compared with 23.7% (yoy) in Q2FY2010, and 3.8% (yoy) in Q1FY2010. Exports have increased at a high rate of 30.1% (yoy) in 9MFY2010 mainly because of a sharp increase in Hyundai's exports. However, this rate of growth is lower than 54% in FY2009.

India's 4W Production, Domestic Sales, and Exports

thousands

	Production			Domestic Sales			Exports		
9MFY	2009	2010	Growth	2009	2010	Growth	2009	2010	Growth
PVs	**1,102**	**1,364**	**23.9**	**865**	**1,071**	**23.8**	**250**	**328**	**30.8**
Mini	53	46	-12.3	37	42	12.9	13	4	-73.2
Compact	850	1,103	29.8	625	798.497	27.7	212	307	45.1
Mid-size	167	180	7.7	171	190	10.9	26	17	-34.3
Executive	25	29	12.8	24	31	32.6	0	0	
Premium	6	7	8.1	7	8	17.7	0	0	
Luxury	0	0	-39.9	1	1	19.1	0	0	
UVs	**159**	**192**	**21.3**	**163**	**193**	**18.6**	**3**	**2**	**-35.8**
<3.5 t, passengers <7	82	104	26.6	86	104	21.3	2	1	-39.9
<3.5 t, passengers 7-9	50	66	32.4	50	66	31.8	1	1	-34.0
<5 t, passengers <13	26	22	-17.2	27	23	-14.1	0	0	-18.9
MPVs	**75**	**105**	**41.5**	**77**	**104**	**35.0**	**1**	**1**	**36.1**
<3.5 t, van type	75	105	41.5	77	104	35.0	1	1	36.1
Total	**1,335**	**1,662**	**24.5**	**1,105**	**1,368**	**23.8**	**254**	**331**	**30.1**

Mini (upto 3400 mm); Compact (3400-4000 mm); Mid-size (4001-4500 mm); Executive (4501-4700 mm); Premium (4701-5000 mm); Luxury (> 5001 mm)

t: tonnes

Source: SIAM, Compiled by IMaCS

Since early-2007, domestic sales of mini- and compact- segment PVs had been impacted by a significant increase in interest rates and increase in fuel prices. Sales growth in these two segments declined from -12.2% and 14.1%, respectively in FY2008 to -29% and 3.1%, respectively in FY2009. During 9MFY2010, while domestic sales in the compact segment increased 27.7% (yoy) to 798,497 units, the mini-segment has somewhat reversed its trend of long-term decline with domestic sales increasing 12.9% (yoy) in 9MFY2010. This increase can be largely attributable to the launch of bookings for Tata Nano in April 2009. By December 2009, Tata Nano had reported sales of 16,803 units. By comparison, in the compact segment, new launches such as Fiat Grande Punto and Honda Jazz have caused a recovery during 9MFY2010. The mid-size segment has witnessed a moderate growth in sales during FY2009, followed by a 10.9% (yoy) increase in 9MFY2010. Sales growth in the executive and higher segment, which was high till Q2FY2009, had been -39% (yoy) in Q3FY2009, followed by smaller declines of 11% (yoy) in Q4FY2009, and 5% (yoy) in Q1FY2010. It has finally shown recovery with a growth of 15% in Q2FY2010, and 107% in Q3FY2010. This segment has seen some declines for the established models such as Honda Civic and Skoda Octavia, following the launch of Fiat Linea and Toyota Corolla Altis in FY2009. Domestic sales of MUVs/UVs had declined sharply since from September 2008 to mid-2009 because of worsening business prospects for main user

segments—primarily transportation of employees in the Information Technology (IT)/IT-enabled services (ITES) industry but has shown a growth from Q2FY2010.

Domestic 4W Sales and Growth

FY	Domestic Sales			Growth (yoy, %)				
	9M FY2009	9M FY2010	9M FY2010	Q3 FY2009	Q4 FY2009	Q1 FY2010	Q2 FY2010	Q3 FY2010
PVs	**865,085**	**1,070,909**	**23.8**	**-11.0**	**5.2**	**4.7**	**25.4**	**44.3**
Mini	37,307	42,128	12.9	-50.8	-31.3	-57.2	33.8	120.3
Compact	625,265	798,497	27.7	-9.8	8.9	13.7	32.3	38.5
Mid-size	171,496	190,235	10.9	4.8	4.5	-9.4	2.8	45.5
Executive	23,670	31,390	32.6	-46.5	-13.1	0.1	16.9	112.0
Premium	6,547	7,706	17.7	3.4	36.4	-22.7	8.7	95.9
Luxury	800	953	19.1	2.7	-113.7	-16.5	16.1	57.0
UVs	**162,893**	**193,130**	**18.6**	**-35.8**	**-15.3**	**-6.9**	**15.1**	**66.1**
<3.5 t, pass. <7	85,832	104,094	21.3	-36.8	-18.8	-10.9	18.8	80.0
<3.5 t, pass. 7-9	49,830	65,655	31.8	-31.3	-4.7	5.4	22.7	88.8
<5 t, pass. <13	27,231	23,381	-14.1	-40.0	-20.9	-17.2	-10.5	-14.4
MPVs	**77,021**	**103,947**	**35.0**	**-16.9**	**0.5**	**19.1**	**24.6**	**67.3**
Total	**1,104,999**	**1,367,986**	**23.8**	**-15.4**	**1.4**	**3.8**	**23.7**	**48.5**

Source: SIAM, Compiled by IMaCS

Although the compact segment now accounts for 75% of domestic sales of PVs, in recent years, the mid-size segment has captured a rising share of the market, and since 2004, sales in the mid-size segment have exceeded sales in the mini-segment (Maruti 800). Because of rising oil prices, increase in interest rates, and decline in prices in the compact segment, the mini-segment experienced a decline in sales since FY2005, caused by fuel price increases, restrictive access to financing, increased consumer preference for compact cars, lower prices in the next higher segment—the compact segment. The growth in the mid-size segment has been led by new launches, lower prices, and the significant success of four models—Maruti Suzuki India Ltd. (MSIL's) Esteem, Honda's City, and TML's Indigo. Launches of Ford Fiesta, Hyundai Verna, Mahindra & Mahindra (M&M) Logan, and MSIL's Dzire (especially the diesel variant) and SX4 have also resulted in increased domestic sales in this segment. Introduction of stripped down versions of the vehicles in the mid-size segment, attractive pricing by manufacturers (who also offer sales incentives), coupled with lower rate of interests and easy availability of finance have facilitated the growth of this segment. However the share of this segment fell to 18% in 9MFY2010. The executive segment has also exhibited high growth since FY2007 because of the launch of Honda Civic in July 2006, Toyota Corolla Altis in September 2008, and Fiat Linea in January 2009. Now with the entry of international players like Audi and Volkswagen, the growth of this segment is only expected to increase further.

Share of Domestic PV Sales

Percent

FY	2003	2004	2005	2006	2007	2008	2009	2010 (9M)
Mini	26.47	24.07	14.18	10.11	7.36	5.78	4.05	3.93
Compact	55.28	53.08	60.51	64.94	69.94	71.38	72.63	74.56
Mid-size	17.06	20.01	21.46	21.11	18.29	18.75	19.82	17.76
Executive	0.41	2.06	3.13	3.12	3.81	3.51	2.76	2.93
Premium	0.76	0.77	0.71	0.71	0.56	0.52	0.68	0.72
Luxury	0.01	0.01	0.02	0.01	0.04	0.07	0.06	0.09
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Source: SIAM, Compiled by IMaCS

MSIL is the dominant player with a market share of 45.7% during 9MFY2010, followed by Hyundai Motors India Ltd. or HMIL (16.3%), and TML (13.9%). Thus, three players account for around 76% of total domestic sales of 4W. In the PV segment, MSIL is the dominant player with a market share of 51.7%, followed by HMIL (20.8%), and TML (12%).

Trends in Domestic Sales and Growth in the 4W Segment

	Domestic Sales		Growth (yoy, %)			
FY	9M FY2009	9M FY2010	9M FY2010	Q1 FY2010	Q2 FY2010	Q3 FY2010
Total	**1,104,999**	**1,367,986**	**23.8**	**3.8**	**23.7**	**48.5**
BMW	2,046	2,627	28.4	7.7	30.6	50.3
Fiat	3,383	18,087	434.6	244.0	706.3	432.7
FML	3,877	4,031	4.0	-27.1	11.6	74.4
Ford	20,257	21,733	7.3	-19.0	23.9	22.0
GM	47,786	55,331	15.8	-10.7	8.3	53.0
HM	7,065	7,646	8.2	-32.4	-1.3	104.8
Honda	33,699	43,617	29.4	5.7	29.6	57.2
Hyundai	177,095	222,878	25.9	1.3	27.8	56.8
ICML	2,883	828	-71.3	-71.7	-65.9	-76.9
M&M	82,881	113,043	36.4	15.4	34.2	70.3
Maruti	510,659	625,401	22.5	9.6	21.8	37.8
MBIL	2,531	2,478	-2.1	-28.4	-12.4	50.0
Nissan	55	133	141.8	NA	375.0	76.7
Skoda	11,309	11,992	6.0	-38.8	15.3	101.6
Tata	161,344	190,563	18.1	-3.1	19.2	42.4
Toyota	37,522	44,950	19.8	-18.4	2.9	122.5
Audi*	607	977	61.0	NA	NA	-100.0
VIPL*	0	1,671	NA	NA	NA	NA
PVs	**865,085**	**1,070,909**	**23.8**	**4.7**	**25.4**	**44.3**
BMW	1,832	2,238	22.2	-8.1	23.6	57.1
Fiat	3,383	18,087	434.6	244.0	706.3	432.7
Ford	18,057	20,214	11.9	-16.5	35.2	22.3
GM	35,283	43,904	24.4	5.3	18.4	45.9
HM	5,384	6,459	20.0	-30.9	7.5	163.2
Honda	31,954	43,414	35.9	13.6	35.6	61.3
Hyundai	177,052	222,865	25.9	1.3	27.8	56.8
M&M	10,856	3,889	-64.2	-67.8	-69.2	-39.7
Maruti	448,758	553,707	23.4	10.0	24.8	36.8

MBIL	2,456	2,397	-2.4	-28.5	-13.0	50.1
Nissan	26	52	100.0	NA	950.0	29.2
Skoda	11,309	11,992	6.0	-38.8	15.3	101.6
Tata	111,259	131,847	18.5	-2.5	20.3	39.8
Toyota	6,869	7,196	4.8	66.9	-28.3	28.4
Audi*	607	977	61.0	NA	NA	-100.0
VIPL*	0	1,671	NA	NA	NA	NA
UVs	**162,893**	**193,130**	**18.6**	**-6.9**	**15.1**	**66.1**
BMW	214	389	81.8	145.8	95.9	0.0
FML	3,877	4,031	4.0	-27.1	11.6	74.4
Ford	2,200	1,519	-31.0	-38.2	-58.4	19.6
GM	12,503	11,427	-8.6	-39.2	-19.0	94.8
HM	1,681	1,187	-29.4	-38.5	-28.9	-18.9
Honda	1,745	203	-88.4	-100.0	-81.6	-70.1
Hyundai	43	13	-69.8	-35.3	-91.7	-92.9
ICML	2,883	828	-71.3	-71.7	-65.9	-76.9
M&M	72,025	109,154	51.6	29.5	53.3	79.3
Maruti	5,374	2,835	-47.2	5.1	-68.2	-58.3
MBIL	75	81	8.0	-26.9	10.7	47.6
Nissan	29	81	179.3	NA	260.0	136.8
Tata	29,591	23,628	-20.2	-34.4	-19.2	6.8
Toyota	30,653	37,754	23.2	-26.0	12.6	155.3
MPVs	**77,021**	**103,947**	**35.0**	**19.1**	**24.6**	**67.3**
Maruti	56,527	68,859	21.8	7.1	9.9	57.0
Tata	20,494	35,088	71.2	59.8	62.9	91.5

Source: SIAM, Compiled by IMaCS

* Cumulative data only of July-August 2009

BMW: BMW India Pvt. Ltd.; MBIL: Mercedes Benz India Pvt. Ltd.; Fiat: Fiat India Pvt. Ltd.; FML: Force Motors Ltd.; Ford: Ford India Pvt. Ltd. GM: General Motors India Pvt. Ltd.; HM: Hindustan Motors Ltd.; Honda: Honda Siel Cars India Ltd.; HMIL: Hyundai Motor India Ltd.; M&M: Mahindra & Mahindra Ltd.; Maruti: Maruti Suzuki India Ltd.; Skoda: SkodaAuto India Pvt. Ltd.; Tata: Tata Motors Ltd.; Toyota: Toyota Kirloskar Motor Pvt. Ltd.; ICML: International Cars & Motors Ltd.; MRPL: Mahindra Renault Pvt Ltd.; VIPL: Volkswagen India Pvt Ltd

The compact segment is the largest segment, accounting for 75% of domestic PV sales. Over the long-term, the compact segment has increased its share, mainly at the expense of the small car segment. Although the compact segment is served by 8 players, competition is intense amongst the leading three manufacturers—MSIL, HMIL, and TML. A host of new players such as Toyota, Honda, and Volkswagen are expected to enter this segment in the short term. Increasing the competition in the segment further, while HMIL launched i10 in October 2007 followed by a more powerful variant in July 2008, Skoda launched the Fabia in January 2008. The i10 has been a significant success for Hyundai and now outsells its own older car—Santro. MSIL has also enjoyed significant success driven primarily by Swift Diesel sales. Fiat and Honda's sales had also increased in June 2009 because of the recent launch of Fiat Grande Punto and Honda Jazz, respectively. Faced with declining sales of its flagship car—Indigo, TML has also launched Indigo CS (a compact sedan). However, this model has not reported significant volumes.

Domestic Sales and Growth in the Compact Segment

FY	Domestic Sales		Growth (yoy, %)			
	9M FY2009	9M FY2010	9M FY2010	Q1 FY2010	Q2 FY2010	Q3 FY2010
FIPL	3,252	10,036	208.6	37.6	420.0	244.9
Ford	1,690	507	-70.0	-66.7	-65.3	-82.4
GM	30,011	37,882	26.2	25.3	24.1	28.8
Honda	0	6,247				
HMIL	152,006	200,213	31.7	5.5	36.7	60.3
MSIL	358,751	459,500	28.1	17.0	29.7	38.6
Skoda	4,728	4,265	-9.8	-64.8	10.0	100.2
TML	74,827	79,847	6.7	12.4	17.3	-9.1
Total	**625,265**	**798,497**	**27.7**	**13.7**	**32.3**	**38.5**

Source: SIAM, Compiled by IMaCS

The Mid-size segment is the one facing the stiffest competition, with MSIL being the leader with a market share of 36.6% in 9MFY2010. Honda City was the market leader during FY2005-07. However, it has lost market share in recent because of the success MSIL's SX4 and the recently launched Swift DZire. Swift DZire is reported to be the market leader in this segment primarily because of the success of its diesel-engine variant. The segment comprises of car models in the price range of Rs. 0.4-0.9 million, and is characterised by aggressive marketing and discounting.

Domestic Sales and Growth in the Mid-Size Segment

FY	Domestic Sales		Growth (yoy, %)			
	9M FY2009	9M FY2010	9M FY2010	Q1 FY2010	Q2 FY2010	Q3 FY2010
BMW	0	25				
Ford	16,367	19,707	20.4	-11.0	47.5	30.5
GM	2,428	2,612	7.6	-56.2	29.5	96.9
HM	5,384	6,459	20.0	-30.9	7.5	163.2
Honda	22,534	31,129	38.1	28.4	31.9	52.4
HMIL	24,795	22,335	-9.9	-23.8	-17.6	27.3
MRPL	10,856	3,889	-64.2	-67.8	-69.2	-39.7
MSIL	52,700	69,613	32.1	25.1	28.8	41.7
TML	36,432	34,466	-5.4	-31.6	-29.7	63.5
Total	**171,496**	**190,235**	**10.9**	**-9.4**	**2.8**	**45.5**

Source: SIAM, Compiled by IMaCS

The Executive, the Premium, and the Luxury segments together account for a small (3.7%) but rising share of sales in the Indian automobile market. The major players in these segments include BMW, Honda, Toyota, Skoda, and Daimler Chrysler. Sales in this segment have increased significantly with the launch of Honda Civic and BMW's 3/5/7 series. The launch of Civic has resulted in a significant decline in market share for Toyota Corolla and Skoda. However, Civic sales have declined over the last year. Sales in this segment declined in FY2009 primarily because of phasing out of the older generation of Honda Accord. The new generation Accord was launched in May 2008. This was followed by launches of Toyota Corolla Altis, Fiat Linea, and new generation Skoda Superb. Domestic sales in this segment had grown at a high rate till around mid-2008 but have declined subsequently

because of a sharp decline in the premium and luxury segment. Sales were flat in Q1FY2010 with significant declines for Honda Civic, accompanied by sharp increases for Fiat and Toyota. Now with the entry of international players like Audi and Volkswagen, the growth of this segment is only expected to increase further. The Executive and Luxury segment witnessed a growth of 15% (yoy) in Q2FY2010, followed by growth of 107% (yoy) in Q3FY2010.

Domestic Sales and Growth in the Executive, Premium, and Luxury Segment

	Domestic Sales		Growth (yoy, %)			
FY	9M FY2009	9M FY2010	9M FY2010	Q1 FY2010	Q2 FY2010	Q3 FY2010
BMW	1,832	2,213	20.8	-8.1	23.6	52.2
Fiat	131	8,051	6045.8	NA	NA	1642.7
GM	2,844	3,410	19.9	-71.4	-41.4	405.3
Honda	9,420	6,038	-35.9	-55.7	-36.9	12.0
HMIL	251	317	26.3	-38.7	78.8	393.8
MBIL	2,456	2,397	-2.4	-28.5	-13.0	50.1
Nissan	26	52	100.0	NA	950.0	29.2
Skoda	6,581	7,727	17.4	-19.8	19.2	102.4
Toyota	6,869	7,196	4.8	66.9	-28.3	28.4
Audi*	607	977	61.0	NA	NA	-100.0
VIPL*	0	1,671	NA	NA	NA	NA
Total	**31,017**	**40,049**	**29.1**	**-4.9**	**15.0**	**106.9**

Source: SIAM, Compiled by IMaCS

The UV segment is dominated by M&M with a market share of 56.5% followed by Toyota (19.5%), and TML (12.2%). While Toyota's market share has remained largely stable over the past 4-5 years, the market shares of the other leading players has till recently fluctuated within a narrow range of 100-200 basis points. However, the recent success of M&M Xylo has enabled it to significantly increase its market share from 47% in FY2009 to 56.5% in 9MFY2010. Toyota has also reported higher share following the launch of Fortuner and a face-lifted Innova.

Domestic Sales and Growth in the UV Segment

FY	Domestic Sales		Growth (yoy, %)			
	9M FY2009	9M FY2010	9M FY2010	Q1 FY2010	Q2 FY2010	Q3 FY2010
BMW	214	389	81.8	145.8	95.9	0.0
FML	3,877	4,031	4.0	-27.1	11.6	74.4
Ford	2,200	1,519	-31.0	-38.2	-58.4	19.6
GM	12,503	11,427	-8.6	-39.2	-19.0	94.8
HM	1,681	1,187	-29.4	-38.5	-28.9	-18.9
Honda	1,745	203	-88.4	-100.0	-81.6	-70.1
Hyundai	43	13	-69.8	-35.3	-91.7	-92.9
ICML	2,883	828	-71.3	-71.7	-65.9	-76.9
M&M	72,025	109,154	51.6	29.5	53.3	79.3
Maruti	5,374	2,835	-47.2	5.1	-68.2	-58.3
MBIL	75	81	8.0	-26.9	10.7	47.6
Nissan	29	81	179.3	NA	260.0	136.8
Tata	29,591	23,628	-20.2	-34.4	-19.2	6.8
Toyota	30,653	37,754	23.2	-26.0	12.6	155.3
Total	**162,893**	**193,130**	**18.6**	**-6.9**	**15.1**	**66.1**

Source: SIAM, Compiled by IMaCS

Two Wheelers—Recent Trends

After a significant decline in India's 2W production, sales and exports (comprising of motorcycles, scooters, and mopeds) during FY2008, there has been a significant recovery during April-September 2008 (H1FY2009), followed by a sharp decline during Q3FY2009, and subsequent acceleration in growth. During 9MFY2010, production of 2W aggregated 7.6 million units, representing a yoy increase of 19.7%. All segments (except electric) registered higher growth compared with FY2009. Domestic sales of 2W increased 21.7% during 9MFY2010, because of strong recovery in all major segments. Exports increased 7.1% (yoy) in 9MFY2010, reversing the strong growth Q2FY2009.

India's 2W Production, Domestic Sales, and Exports

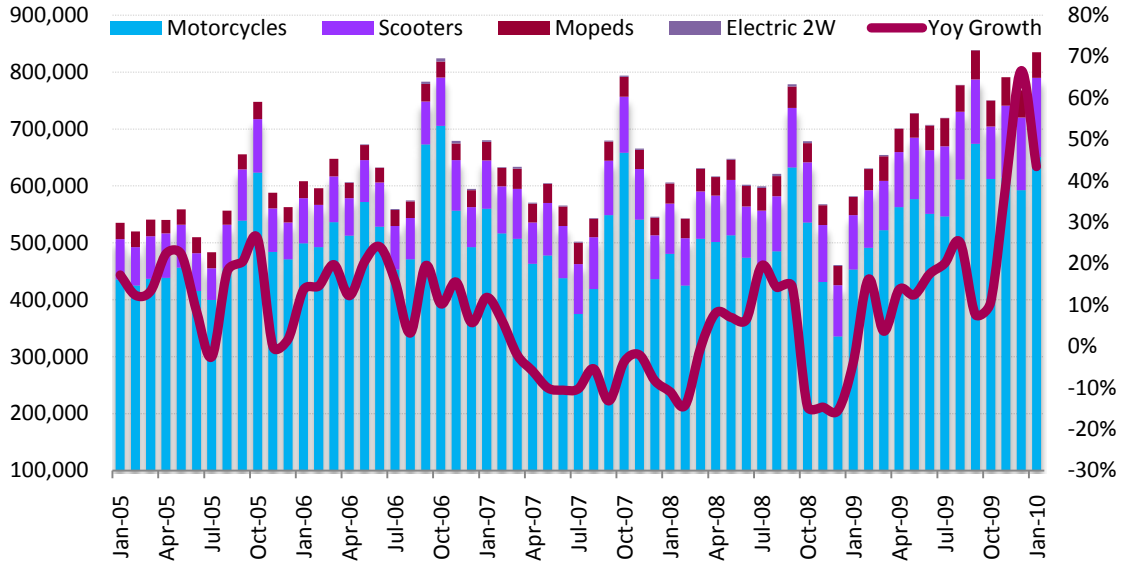
Thousand units

9MFY	Production			Domestic Sales			Exports		
	2009	2010	Growth	2009	2010	Growth	2009	2010	Growth
Motorcycles	**5,128**	**6,135**	**19.6**	**4,366**	**5,340**	**22.3**	**766**	**822**	**7.3**
75-125 cc	3,541	4,472	26.3	3,083	3,955	28.3	465	548	18.0
125-250 cc	1,555	1,623	4.4	1,251	1,346	7.5	300	272	-9.2
>250 cc	32	40	25.4	31	39	24.0	1	1	-2.6
Scooters	**878**	**1,041**	**18.7**	**864**	**1,019**	**17.9**	**21**	**23**	**11.1**
<75 cc	14	19	32.8	15	18	23.2	0	0	-100.0
75-125 cc	828	1,021	23.3	813	1,000	22.9	20	23	12.0
125-250 cc	35	1	-97.8	36	1	-98.4	0	0	155.8
Mopeds	**324**	**421**	**30.1**	**319**	**417**	**30.8**	**6**	**4**	**-26.6**
Electric	**20**	**3**	**-87.3**	**22**	**3**	**-86.1**	**0**	**0**	**25.0**
Total	**6,349**	**7,600**	**19.7**	**5,571**	**6,779**	**21.7**	**793**	**849**	**7.1**

cc: cubic centimetres; Source: SIAM, Compiled by IMaCS

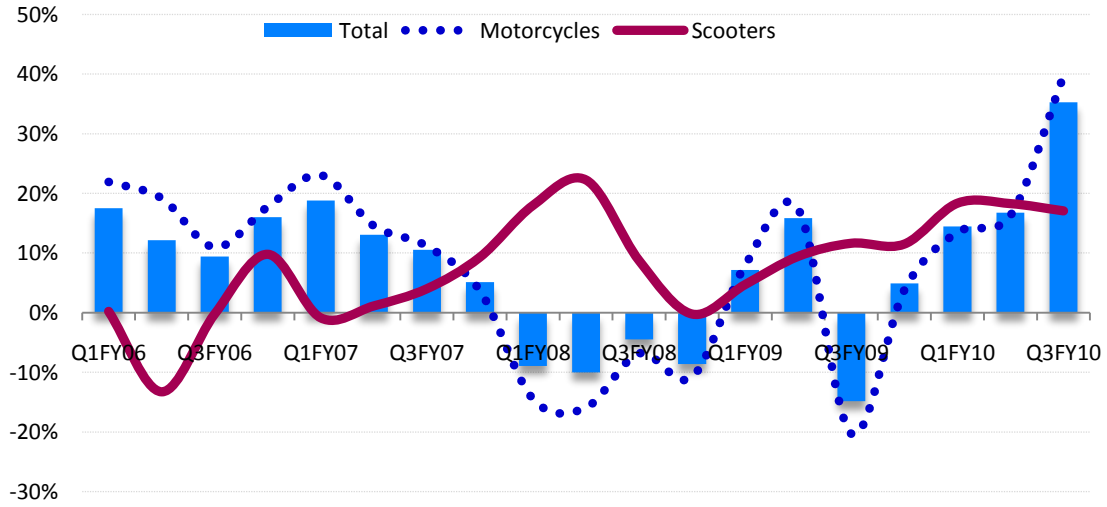
As can be seen from the figure below, 2W sales declined yoy in each month during March 2007-March 2008. The decline had been because of continuous decline in motorcycle sales. By comparison, yoy sales of scooters increased in each month since November 2006. During H1FY2009, domestic sales of motorcycles increased at a higher rate. By comparison, scooter sales increased at a lower rate because of a 10% increase in fuel prices in June 2008, which resulted in higher sales for (higher) fuel-efficient motorcycles. However, sales of 2Ws declined at a sharp rate in Q3FY2009, mainly because of a sharp decline in motorcycle sales. By comparison, sales of lower-priced scooters and mopeds continued to grow at a moderate rate. Following a decline in domestic sales during Q3FY2009, domestic sales of 2W increased subsequently primarily because of a reduction in excise duty from 12% to 8%, which resulted in a decline in product prices.

Monthly Sales of 2W



Source: SIAM, Compiled by IMaCS

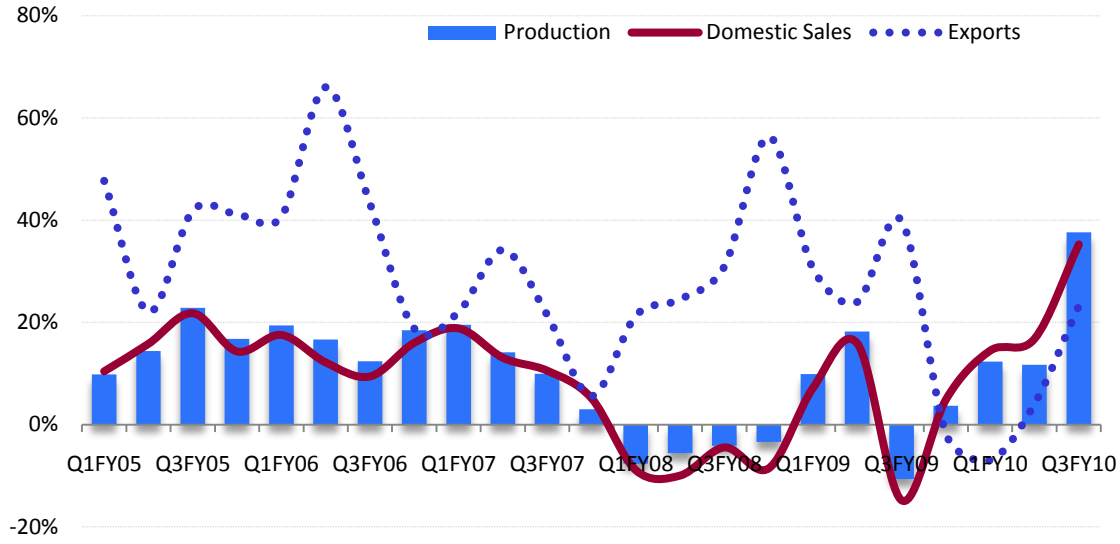
Trends in Quarterly Growth for Domestic 2W Sales



Source: SIAM, Compiled by IMaCS

Although 2W sales declined significantly during late-2008, strong growth in exports had resulted in production declining at a lower rate. Exports increased 24% (yoy) in Q2FY2009, and 39.9% (yoy) in Q3FY2009, primarily because of continued high growth in exports of motorcycles. However, since then exports have increased at a slower rate, as domestic sales have increased at a high rate.

Trends in Quarterly Growth for 2W—Production, Domestic Sales and Exports



Source: SIAM, Compiled by IMaCS

The motorcycle segment accounted for 79% of domestic sales in 9MFY2010, as compared with 83.2% in FY2007. By comparison, the share of scooters in total sales had declined from 16.5% in FY2004 to 12.0% in FY2007, but has increased to 15.4% in FY2009, and 15% in 9MFY2010. While motorcycles continue to be the dominant segment within 2Ws, the scooters segment in particular has seen strong growth during FY2008-10, supported by lower prices (compared with motorcycles), and new product launches.

Share of Domestic 2W Sales

FY	2004	2005	2006	2007	2008	2009	9M FY2010
Motorcycles	**77.7%**	**80.0%**	**82.4%**	**83.2%**	**79.6%**	**78.5%**	**78.8%**
<75 cc	0.6%	0.3%	0.0%	0.0%	0.0%	0.0%	0.0%
75-125 cc	68.2%	67.3%	68.1%	65.6%	57.9%	55.3%	58.3%
125-250 cc	8.4%	11.9%	13.8%	17.1%	21.2%	22.6%	19.9%
>250 cc	0.5%	0.5%	0.4%	0.4%	0.5%	0.6%	0.6%
Scooters	**16.5%**	**14.9%**	**12.9%**	**11.9%**	**14.5%**	**15.4%**	**15.0%**
<75 cc	3.8%	2.1%	0.7%	0.3%	0.5%	0.3%	0.3%
75-125 cc	8.0%	9.4%	9.9%	10.3%	13.1%	14.5%	14.8%
125-250 cc	4.7%	3.3%	2.3%	1.3%	0.9%	0.6%	0.0%
Mopeds	**5.7%**	**5.2%**	**4.7%**	**4.5%**	**5.7%**	**5.8%**	**6.2%**
Electric	**0.0%**	**0.0%**	**0.0%**	**0.4%**	**0.2%**	**0.3%**	**0.0%**
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Source: SIAM, Compiled by IMaCS

Tighter credit conditions have resulted in an increase in sales of lower-priced scooters, reversing a long term trend of a slow-growing scooter market, as consumers shifted to more fuel-efficient motorcycles.

Domestic 2W Sales and Growth

FY	Domestic Sales		Growth (yoy, %)					
	9M FY2009	9M FY2010	9M FY2010	Q3 FY2009	Q4 FY2009	Q1 FY2010	Q2 FY2010	Q3 FY2010
Motorcycles	**4,365,700**	**5,339,738**	**22.3**	**-20.3**	**4.0**	**13.5**	**16.3**	**39.7**
75-125 cc	3,083,084	3,955,227	28.3	-24.1	0.8	12.2	19.6	59.1
125-250 cc	1,251,438	1,345,841	7.5	-11.7	12.4	16.7	7.3	-1.2
>250 cc	31,178	38,670	24.0	22.3	9.9	31.1	30.0	13.1
Scooters	**864,457**	**1,018,900**	**17.9**	**11.6**	**10.6**	**18.3**	**18.3**	**17.0**
<75 cc	14,891	18,343	23.2	-44.7	-30.4	-5.6	34.2	53.1
75-125 cc	813,446	999,977	22.9	14.9	15.5	26.0	22.6	20.7
125-250 cc	36,120	580	-98.4	-18.7	-40.4	-97.0	-98.9	
Mopeds	**319,227**	**417,463**	**30.8**	**2.9**	**1.9**	**21.9**	**30.5**	**40.2**
Electric	**21,658**	**3,001**	**-86.1**	**17.7**	**54.3**	**-57.6**	**-93.8**	**-95.7**
Total	**5,571,042**	**6,779,102**	**21.7**	**-14.8**	**4.9**	**14.5**	**16.8**	**35.3**

Source: SIAM, Compiled by IMaCS

At present, the Indian 2W industry is characterised by well-entrenched competition evident from the presence of nine vehicle manufacturers. Hero Honda Motors Limited (HHML) is the leader in the 2W market with a market share of 49.3% in 9MFY2010, followed by Bajaj Auto Ltd. or BAL (18.2%), TVS Motors or TVS (14.7%), and Honda (12.2%). Thus, top four players account for around 95% of total domestic sales of 2W in the Indian market. The industry is concentrated with six players accounting for 99% of sales, and four players each having a market share of less than 0.5%. Further, the share of the top 4 players mentioned above has increased from 83.1% in FY2002. In the motorcycle segment, HHML is the largest player with a market share of 59.9% in 9MFY2010, followed by BAL (23.1%), and TVS (6.7%). Honda is the largest player in the scooter segment with a market share of 51.3% in

9MFY2010, followed by TVS (21.7%), and HHML (14.1%). During the last few years, while both HHML and Honda have witnessed an increase in market share in domestic 2W sales, BAL's share has declined from 27.8% in FY2002 to 18.2% in 9MFY2010, primarily because of loss of market share in the motorcycle segment, and negligible presence in the scooter segment.

Trends in Domestic Sales and Growth in the 2W Segment

	Domestic Sales		Growth (yoy, %)			
FY	9M FY2009	9M FY2010	9M FY2010	Q1 FY2010	Q2 FY2010	Q3 FY2010
Total	**5,571,042**	**6,779,102**	**21.7**	**14.5**	**16.8**	**35.3**
BAL	1,035,173	1,235,548	19.4	-15.2	5.0	96.6
HHML	2,659,773	3,340,287	25.6	24.8	22.5	29.9
Honda	754,692	830,039	10.0	26.0	9.0	-2.3
KMCL	7,277	0	-100.0	-100.0	NA	NA
Mahindra	0	37,977	NA	NA	NA	NA
REL	31,148	38,612	24.0	30.8	29.9	13.3
Suzuki	94,431	124,190	31.5	27.0	20.2	48.8
TVS	860,679	999,255	16.1	7.8	11.9	31.2
Yamaha	114,435	170,712	49.2	71.2	86.4	12.0
Electrotherm	13,434	2,482	-81.5	-26.9	-92.3	-100.0
Motorcycles	**4,365,700**	**5,339,738**	**22.3**	**13.5**	**16.3**	**39.7**
BAL	1,026,800	1,232,047	20.0	-15.0	5.4	98.4
HHML	2,555,453	3,196,505	25.1	23.2	21.4	31.3
Honda	251,329	307,350	22.3	62.6	17.2	-2.1
KMCL	238	0	-100.0	-100.0	NA	NA
REL	31,148	38,612	24.0	30.8	29.9	13.3
Suzuki	32,513	34,138	5.0	-4.0	-4.8	31.8
TVS	353,784	360,374	1.9	-3.5	-4.9	18.4
Yamaha	114,435	170,712	49.2	71.2	86.4	12.0
Scooters	**864,457**	**1,018,900**	**17.9**	**18.3**	**18.3**	**17.0**
BAL	8,373	3,501	-58.2	-44.6	-55.0	-76.8
HHML	104,320	143,782	37.8	80.6	49.1	3.0
Honda	503,363	522,689	3.8	9.8	4.9	-2.5
KMCL	5,552	0	-100.0	-100.0	NA	NA
Mahindra	0	37,977	NA	NA	NA	NA
Suzuki	61,918	90,052	45.4	48.7	33.2	55.5
TVS	180,931	220,899	22.1	8.7	18.9	42.3
Mopeds	**319,227**	**417,463**	**30.8**	**21.9**	**30.5**	**40.2**
KMCL	1,487	0	-100.0	-100.0	NA	NA
TVS	317,740	417,463	31.4	23.6	30.5	40.2
Electric	**21,658**	**3,001**	**-86.1**	**-57.6**	**-93.8**	**-95.7**
TVS	8,224	519	-93.7	-94.6	-96.4	-88.2
Electrotherm	13,434	2,482	-81.5	-26.9	-92.3	-100.0

Source: SIAM, Compiled by IMaCS

Honda Motorcycle & Scooter India (Pvt) Ltd. (Honda); Kinetic Engineering Ltd. (KEL); Kinetic Motor Company Ltd. (KMCL); LML Limited (LML); Majestic Auto Ltd. (MAL); Royal Enfield Ltd. (REL)-unit of Eicher; Suzuki Motorcycle India Pvt Ltd. (Suzuki); TVS Motor Company Ltd. (TVS); Yamaha Motor India Pvt Ltd. (Yamaha); Mahindra: Mahindra Two Wheelers Ltd.

In the motorcycle segment, the 75-125 cc segment is the largest segment, accounting for 74.1% of domestic motorcycle sales. Although this segment is served by only five players, competition is intense amongst the leading three manufacturers—HHML, BAL, and TVS. As can be seen from the table below, HHML has significantly increased its market share in the segment because of product improvements in Pleasure and Splendor NXG brands. BAL has reported exceptionally high growth during Q2FY2010 and Q3FY2010 because of the success of the new Bajaj Discover.

Domestic Sales and Growth in the 75-125 cc Motorcycle Segment

	Domestic Sales		Growth (yoy, %)			
FY	9M FY2009	9M FY2010	9M FY2010	Q1 FY2010	Q2 FY2010	Q3 FY2010
BAL	364,483	618,826	69.8	-38.3	38.6	504.2
HHML	2,428,193	3,026,454	24.6	22.4	20.1	32.3
KMCL	238	0	-100.0	-100.0		
TVS	245,862	261,686	6.4	14.5	-12.9	25.1
Yamaha	44,308	48,261	8.9	-0.2	13.4	13.8
Total	**3,083,084**	**3,955,227**	**28.3**	**12.2**	**19.6**	**59.1**

Source: SIAM, Compiled by IMaCS

There has been a steep increase in sales of 125-250 cc motorcycles since FY2006. This is also most competitive sub segment in motorcycles, with BAL being the leader with a market share of 45.6% in 5MFY2010. Bajaj leads the segment with its offerings, Pulsar, Discover, Avenger and XCD. However, BAL's market share has declined from 60% in FY2008 because of entry of new players such as Suzuki, and launch of new products by competitors.

Domestic Sales and Growth in the 125-250 cc Motorcycle Segment

	Domestic Sales		Growth (yoy, %)			
FY	9M FY2009	9M FY2010	9M FY2010	Q1 FY2010	Q2 FY2010	Q3 FY2010
BAL	662,317	613,221	-7.4	2.0	-15.0	-8.9
HHML	127,260	170,051	33.6	38.9	47.4	13.7
Honda	251,329	307,344	22.3	62.6	17.2	-2.1
Suzuki	32,513	34,095	4.9	-4.1	-5.0	31.8
TVS	107,922	98,688	-8.6	-39.3	18.1	4.9
Yamaha	70,097	122,442	74.7	146.9	149.1	11.5
Total	**1,251,438**	**1,345,841**	**7.5**	**16.7**	**7.3**	**-1.2**

Source: SIAM, Compiled by IMaCS

The >250 cc motorcycle segment accounts for only 0.7% of motorcycle sales and is served by two players—REL and Yamaha. Honda and Suzuki Motorcycles have also entered this segment. REL accounted for 99.9% of domestic sales in this segment during 9MFY2010.

After an 11.6% increase in domestic sales during FY2008, the scooter segment has reported lower growth of 9.1% during FY2009, mainly because of a decline in the <75 cc and 125-250 cc segment. Sales in the higher 125-250 cc have continued their long-term decline, because of continued shift towards motorcycles. Although domestic sales of scooters increased 17.9% (yoy) in 9MFY2010, this

growth may not be sustained in the long-term, especially with an expectation of future fuel price increases. While the share of <75 cc segment in total scooter sales has declined from 28.4% in FY2003 to 1.8% in 9MFY2010, the share of >125 cc segment has declined from 34.7% to 0.1%. By comparison, the share of 75-125 cc segment has increased from 36.9% in FY2003 to 98% in 9MFY2010. In the scooter segment, the <75 cc segment is now served only by TVS. The 75-125 cc segment accounts for 98% of domestic scooter sales. This sub-segment is served by six players, with Honda being the market leader with a share of 52.2%, followed by TVS (20.3%). BAL has witnessed a significant decline in market share, with its market share declining from 5.9% in FY2004 to 0.4% in 9MFY2010. By comparison, Suzuki's market share has increased from 2.6% in FY2008 to 9% in 9MFY2010 because of significant success of its ` Access125 cc'.

Domestic Sales and Growth in the 75-125 cc Scooter Segment

	Domestic Sales		Growth (yoy, %)			
FY	9M FY2009	9M FY2010	9M FY2010	Q1 FY2010	Q2 FY2010	Q3 FY2010
BAL	8,373	3,501	-58.2	-44.6	-55.0	-76.8
HHML	104,320	143,782	37.8	80.6	49.1	3.0
Honda	471,457	522,399	10.8	17.8	12.3	3.3
KMCL	959	0	-100.0	-100.0	NA	NA
Mahindra	0	37,687	NA	NA	NA	NA
Suzuki	61,918	90,052	45.4	48.7	33.2	55.5
TVS	166,419	202,556	21.7	9.6	17.9	41.3
Total	**813,446**	**999,977**	**22.9**	**26.0**	**22.6**	**20.7**

Source: SIAM, Compiled by IMaCS

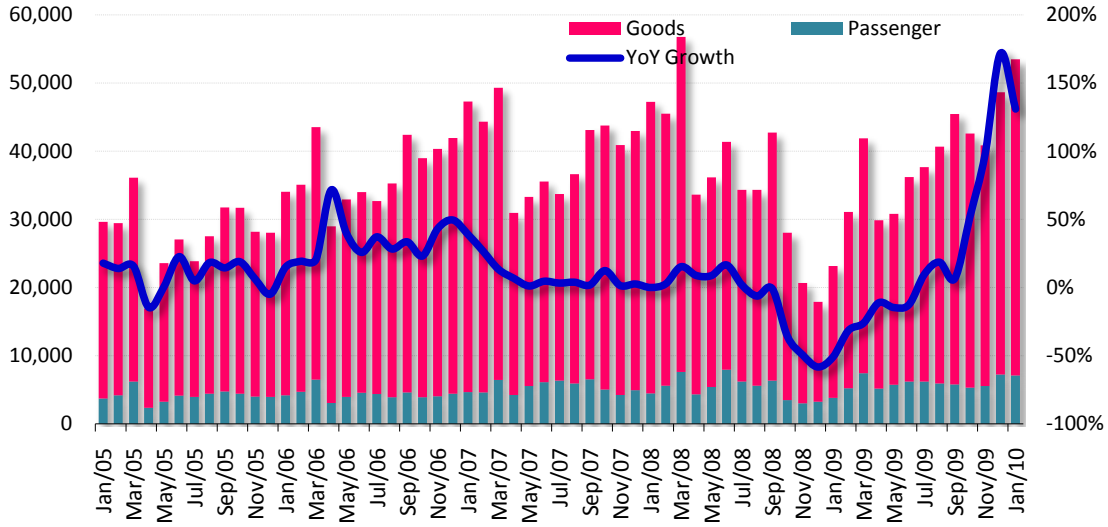
The moped segment comprises of only <75 cc segment, and is presently served by only one player TVS after Kinetic Motor Company was sold.

Commercial Vehicles—Recent Trends

During FY2004-07, CV sales volumes growth in the domestic market had been healthy led by buoyant economic activity, easy access to finance, entry of new truck financing companies, increased momentum in highway construction, better operating economics of new trucks, and a Supreme Court (SC) order prohibiting overloading of trucks. However, continued hardening of interest rates and a slowdown in economic activity has impacted CV sales volumes since FY2008. Since mid-2008, domestic CV sales volumes have declined significantly because of an economic slowdown, slowdown in index of industrial production (IIP), tighter credit conditions and constraints in the availability of vehicle finance from banks and non-banking finance companies (NBFCs). Though in-house vehicle financing of major manufacturers has increased, the additional credit flow was unable to fully offset the decrease in credit availability from outside sources. As compared with a year on year (yoy) growth of 9.2% in Q1FY2009, domestic CV sales declined 1.8% (yoy) during Q2FY2009, and by a sharp rate of 47.8% (yoy) in Q3FY2009, and 35.7% (yoy) in Q4FY2009. The rate of decline was lower at 12.1% (yoy) in Q1FY2010 primarily because of 16% (yoy) growth in LCV segment. A significant proportion of trucks are purchased by small truck operators in the unorganised sector, who may have to pay a relatively higher rate of interest as compared with large-fleet operators, and are more vulnerable to interest rate fluctuations and slowdown in economic activity.

Following four successive quarters of decline, the Indian CV industry has posted high growth of 11.1% (yoy) in Q2FY2010. Domestic sales increased 98.4% (yoy) in Q3FY2010. Some of this growth is partly attributable to the base effect. Compared with Q3FY2008, domestic sales increased at an annual rate of 1.7% in Q3FY2010, compared with 4.4% in Q2FY2010. Further, although domestic CV sales increased 22.3% (yoy) in 9MFY2010, the annual rate of growth compared with 9MFY2008 was 1.7%.

Monthly Domestic Sales of CVs



Source: SIAM, IMaCS Analysis

Overall production growth declined from 0% (yoy) in Q2FY2009 to sharp declines of 50.5% (yoy) in Q3FY2009, and 43.5% (yoy) in Q4FY2009. However, production declined at a lower rate of 19.5% (yoy) in Q1FY2010, because of recovery in LCV production. MHCV production continued to decline at a high, albeit lower rate through Q2FY2010. Overall CV production actually increased 4.4% (yoy) in Q2FY2010, followed by an exceptionally high increase of 95.4% (yoy) in Q3FY2010, albeit on a low base.

India's CV Production, Domestic Sales, and Exports

thousands

	Production			Domestic Sales			Exports		
9MFY	**2009**	**2010**	**Growth**	**2009**	**2010**	**Growth**	**2009**	**2010**	**Growth**
MHCV	**157.37**	**161.99**	**2.9**	**142.53**	**156.39**	**9.7**	**13.43**	**14.74**	**9.8**
Passenger	**31.99**	**33.01**	**3.2**	**25.61**	**28.59**	**11.7**	**6.01**	**4.08**	**-32.0**
7.5-12 t, seats > 13	5.99	7.25	21.1	5.19	6.96	34.0	0.27	0.43	61.4
12-16.5 t, seats <13	0.00	0.15	NA	0.00	0.15	NA	0.00	0.00	NA
12-16.5 t, seats > 13	25.98	25.55	-1.6	20.39	21.43	5.1	5.74	3.65	-36.4
>16.2 t, seats > 13	0.03	0.06	134.6	0.02	0.06	166.7	0.00	0.00	NA
Goods	**125.38**	**128.98**	**2.9**	**116.92**	**127.80**	**9.3**	**7.42**	**10.66**	**43.7**
7.5-12 t	21.55	29.85	38.6	20.65	28.31	37.1	1.27	2.27	78.7
12-16.2 t	37.01	35.39	-4.4	33.23	31.36	-5.6	4.56	5.38	18.0
RV, 16.2-25 t	53.19	51.68	-2.8	49.78	48.66	-2.2	1.39	2.29	64.3
RV, > 25 t	4.82	8.85	83.5	4.54	8.76	92.9	0.05	0.34	660.0
HT, 16.2-26.4 t	0.00	0.00	NA	0.00	0.00	NA	0.00	0.28	NA
HT, 26.4-35.2 t	3.39	1.68	-50.4	3.87	4.66	20.7	0.02	0.04	95.2
HT, >35.2 t	5.43	1.53	-71.8	4.86	6.05	24.5	0.14	0.07	-48.9
LCVs	**169.86**	**214.66**	**26.4**	**145.70**	**196.18**	**34.6**	**22.56**	**16.00**	**-29.1**
Passenger	**22.39**	**25.13**	**12.3**	**19.82**	**24.49**	**23.6**	**4.30**	**2.12**	**-50.8**
<5 t, seats >13	7.47	9.34	24.9	7.81	9.69	24.2	0.24	0.27	10.8
5-7.5 t, seats >13	14.91	15.80	5.9	12.01	14.80	23.2	4.06	1.85	-54.4
Goods	**147.48**	**189.53**	**28.5**	**125.88**	**171.69**	**36.4**	**18.26**	**13.88**	**-24.0**
<3.5 t	122.71	159.53	30.0	106.37	145.22	36.5	11.86	10.41	-12.3
3.5-5 t	2.50	5.39	115.5	2.25	2.20	-2.2	0.10	0.11	10.8
5-7.5 t	22.26	24.61	10.5	17.26	24.27	40.6	6.30	3.36	-46.7
Total	**327.24**	**376.66**	**15.1**	**288.23**	**352.58**	**22.3**	**35.99**	**30.74**	**-14.6**

t: tonnes; RV: Rigid Vehicles; HT: Haulage tractors

Source: SIAM, Compiled by IMaCS

Domestic CV sales increased 22.3% (yoy) during 9MFY2010. The sales growth has been caused by a sharp increase of 34.6% (yoy) in LCV sales. Domestic sales of LCV goods carriers, which had declined during Q3FY2009 and Q4FY2009, increased 36.4% (yoy) in 9MFY2010, primarily because of strong growth in low and medium tonnage (<3.5 and 3.5-5 tonnes) segment. Domestic sales of MHCV goods carriers have also recovered since Q2FY2010, compared with a decline of 58.8% (yoy) in Q4FY2009, and 65.2% (yoy) in Q3FY2009.

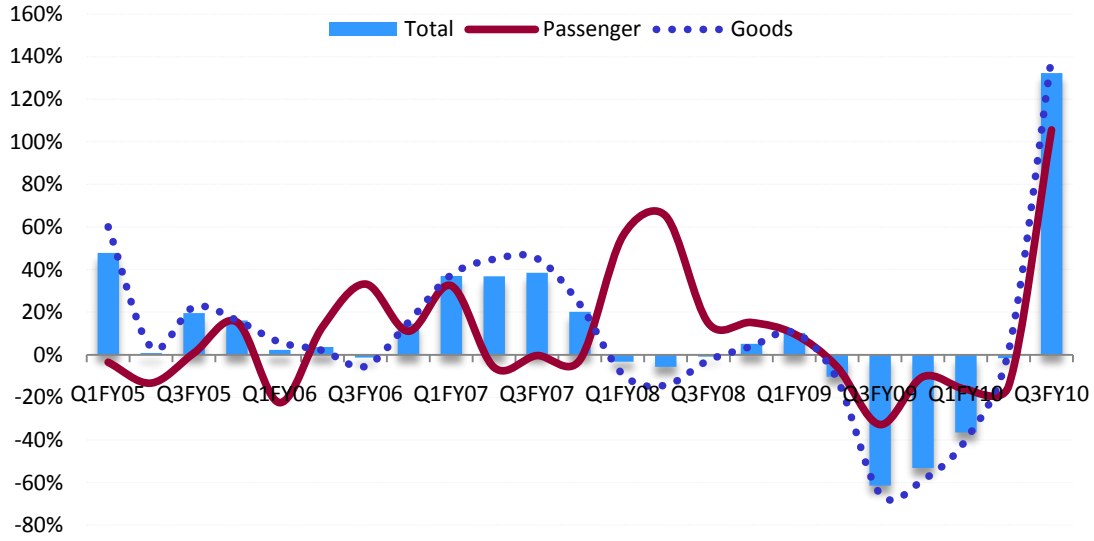
India's CV Domestic Sales and Growth

FY	Domestic Sales 9M FY2009	Domestic Sales 9M FY2010	Growth (yoy, %) 9M FY2010	Q3 FY2009	Q4 FY2009	Q1 FY2010	Q2 FY2010	Q3 FY2010
MHCV	**142,530**	**156,394**	**9.7**	**-61.3**	**-53.1**	**-36.4**	**0.7**	**132.4**
Passenger	**25,608**	**28,593**	**11.7**	**-32.8**	**-10.3**	**-16.2**	**-14.8**	**106.0**
7.5-12 t, seats > 13	5,193	6,957	34.0	-49.2	-3.9	15.8	7.6	209.2
12-16.5 t, seats <13	0	150	NA	NA	-100.0	NA	NA	NA
12-16.5 t, seats > 13	20,394	21,430	5.1	-30.5	-11.7	-25.4	-22.0	91.1
>16.2 t, seats > 13	21	56	166.7	NA	NA	NA	NA	38.1
Goods	**116,922**	**127,801**	**9.3**	**-65.3**	**-58.9**	**-39.9**	**4.6**	**139.5**
7.5-12 t	20,645	28,309	37.1	-60.7	-41.5	-8.6	18.7	159.7
12-16.2 t	33,233	31,360	-5.6	-57.6	-50.8	-40.1	-17.6	80.7
RV, 16.2-25 t	49,777	48,658	-2.2	-69.3	-65.3	-45.5	-4.5	124.5
RV, > 25 t	4,539	8,757	92.9	111.2	-27.1	-29.5	93.0	403.4
HT, 16.2-26.4 t	0	0	NA	NA	NA	NA	NA	NA
HT, 26.4-35.2 t	3,865	4,664	20.7	-84.9	-74.5	-71.2	57.9	563.6
HT, >35.2 t	4,863	6,053	24.5	-89.3	-90.6	-66.0	59.7	462.4
LCVs	**145,702**	**196,181**	**34.6**	**-31.6**	**-11.4**	**16.0**	**22.7**	**75.2**
Passenger	**19,818**	**24,489**	**23.6**	**-30.2**	**-3.1**	**10.2**	**19.7**	**59.6**
<5 t, seats >13	7,807	9,694	24.2	-26.7	-15.9	7.9	23.8	53.1
5-7.5 t, seats >13	12,011	14,795	23.2	-32.7	5.2	11.5	16.8	64.9
Goods	**125,884**	**171,692**	**36.4**	**-31.8**	**-12.5**	**17.2**	**23.1**	**77.0**
<3.5 t	106,373	145,224	36.5	-31.1	-10.6	19.1	23.3	74.9
3.5-5 t	2,247	2,197	-2.2	-12.8	-31.9	-18.8	-22.9	52.8
5-7.5 t	17,264	24,271	40.6	-37.0	-21.2	10.1	29.6	92.3
Total	**288,232**	**352,575**	**22.3**	**-47.9**	**-35.8**	**-12.9**	**11.9**	**98.4**

Source: SIAM, Compiled by IMaCS

Domestic MHCV sales increased at a 3-year CAGR of 10.4% to 270,994 units during FY2008, followed by sharp declines thereafter till Q1FY2010.

Trends in Quarterly Growth for Domestic MHCV Sales



Source: SIAM, Compiled by IMaCS

In the MHCV goods carrier segment, till recently the 12-16.2 tonnes GVW segment (9-tonne payload) accounted for most of the sales in the Indian market. However, recent growth has been driven by multi axle vehicles (MAVs). Most of the players in MHCV goods carriers segment have introduced MAVs since FY2000. MAVs include rigid-body MAVs including trucks with a payload of 9-15 tonnes; MAVs with 2-axled trailers attached to the tractor with a payload of 25 tonnes, if it is a flat bed. Some combination vehicles with low body trailers carry a payload of 23.5 tonnes. MAVs with tractors and 3-axled combinations have a payload of 32 tonnes and 30.5 tonnes, respectively for flat bed and low-body trailers. The growth in MAVs has been aided by concessional rates of state taxes on such vehicles in many states and improvements in road infrastructure. This is expected to be followed by a shift to tractor-trailer combinations on account of operating economics of higher power-to-weight ratio vehicles. Within the MHCV goods carrier segment, the share of the MAVs and tractor trailers has increased over time. Traditionally, the Indian truck industry has used mainly 2- and 3-axle rigid trucks. While the standard truck dominated the heavy goods carrier sales till FY2004, the share of trucks with GVW greater than 16.2 tonnes increased from 40.9% in FY2003 to 52.7% in FY2009, and 53.1% in 9MFY2010. The share has improved mainly because of a significant increase in demand for higher tonnage vehicles.

Share of Domestic MHCV Sales

FY	2003	2004	2005	2006	2007	2008	2009	2010 (9M)
Passenger	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
7.5-12 t, seats > 13	2.4	6.8	9.0	15.5	14.2	14.5	19.4	24.3
12-16.5 t, seats <13	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5
12-16.5 t, seats > 13	97.6	93.2	90.7	84.5	85.8	85.5	80.5	74.9
>16.2 t, seats > 13	0.0	0.0	0.3	0.0	0.0	0.0	0.1	0.2
Goods	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
7.5-12 t	12.4	11.6	15.0	18.0	14.7	17.3	18.6	22.2
12-16.2 t	46.7	45.1	40.1	34.0	26.0	25.6	28.7	24.5
RV, 16.2-25 t	12.9	14.2	12.7	22.0	48.9	45.3	41.9	38.1
RV, > 25 t	24.1	23.3	25.2	19.3	0.2	1.1	4.0	6.9
HT, 16.2-26.4 t	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
HT, 26.4-35.2 t	3.4	5.6	6.6	4.5	3.5	3.8	3.2	3.6
HT, >35.2 t	0.2	0.2	0.3	2.3	6.7	6.8	3.6	4.7

Source: SIAM, Compiled by IMaCS

The LCV segment can be broadly divided into two segments on the basis of usage: the goods carrier segment, and the passenger carrier segment. The goods carrier segment (tempos) accounted for around 88% of the domestic sales in 9MFY2010. After a sharp decline of 7.6% in FY2009, domestic sales of LCVs have increased 26.4% (yoy) in 9MFY2010, mainly because of strong 28.5% (yoy) growth in LCV goods carrier sales. By comparison, passenger carrier sales increased 12.3% in 9MFY2010, which represents a significant recovery from the yoy decline of 1.6% in Q4FY2009.

Trends in Quarterly Growth for Domestic LCV Sales

Source: SIAM, Compiled by IMaCS

The less than 3.5 tonnes category is the largest segment, accounting for 84% of domestic goods LCV sales in 9MFY2010. This segment has reported very high growth rate during FY2005-08, primarily because of the superior price-performance ratio, and the launch of ACE by Tata Motors Ltd. (TML). The LCV segment is dominated by TML and the high growth in goods carrier segment during the last few years has been driven by the launch of Tata Motors' 207DI (a 2-tonne pick-up vehicle), which

enabled the company to strengthen its presence in this segment. During FY2006-07, growth was driven by the launch by TML of a mini-truck—the TATA ACE (with a GVW of 1.55 tonnes). Since FY2006, the demand growth for this LCV goods carrier has been higher than other sub-segments, driven by the trend of increase in consumption of consumer goods and durables in smaller cities/towns and restrictions on goods movement by bigger vehicles in metros/bigger cities especially during daytime. The increasing popularity of the lower tonnage LCVs can be attributed to the increasing distribution of goods inside Indian towns and villages that need small vehicles because of disaggregated nature of freight generation and narrow roads. The increasing popularity of door-to-door service has contributed to the growth of LCVs in the recent past. As these vehicles have relatively lower acquisition costs, the fleet operators may prefer them to carry small cargo. The corporates not only look for speedy, reliable, door- to- door services, but also for a complete logistic solution that minimises the costs of transport, logistics and inventory. With the share of the high value consumer goods (which call for timely transportation and better handling) increasing, lower tonnage LCVs are expected to witness higher growth in the medium-term.

Share of Domestic LCV Sales

percent

FY	2003	2004	2005	2006	2007	2008	2009	2010 (9M)
Passenger	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
<5 tonnes	55.2	56.3	50.7	38.4	31.2	36.1	38.0	39.6
5-7.5 tonnes	44.8	43.7	49.3	61.6	68.8	63.9	62.0	60.4
Goods	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
<3.5 tonnes	39.9	50.2	54.9	66.6	78.4	83.6	84.9	84.6
3.5-5 tonnes	1.8	1.3	1.0	0.6	1.0	1.2	1.6	1.3
5-7.5 tonnes	58.4	48.5	44.0	32.8	20.6	15.2	13.5	14.1

Source: SIAM, Compiled by IMaCS

LCV passenger carriers constitute a small segment of the LCV segment, and is dominated by RTVs of 5-7.5 tonnes, which account for 60% of total LCV passenger sales. The lower (<5 tonnes) tonnage segment has declined because of the better operating economies in the higher tonnage segment.

At present, the Indian CV industry has fifteen players with some of them catering to the niche segments. TML is the overall market leader in the Indian CV market with a domestic market share of 62% in 9MFY2010, followed by M&M (16%), ALL (9.7%), and EML (5%). The cumulative share of the four players has remained at greater than 90% over the last 6-7 years. However, their cumulative share has declined from 96% in FY2007, mainly because of loss of market share in LCVs (<3.5 tonnes) to Piaggio Vehicles Pvt. Ltd. (PVPL) and Force Motors Ltd. (FML). ALL has lost significant market share from FY2009 onwards because of its overwhelming presence in the MHCV segment, and negligible presence in the LCV segment, which has shown strong recovery in 9MFY2010.

TML is the market leader in both the CV goods and passenger carrier segment, with market shares of 63.7% and 52.3%, respectively during 9MFY2010. It is also the market leader in both the MHCV and LCV segment, with market shares of 64.7% and 59.8%, respectively in 9MFY2010.

Domestic Sales and Growth in CVs

FY	Domestic Sales		Growth (yoy, %)			
	9M FY2009	9M FY2010	9M FY2010	Q1 FY2010	Q2 FY2010	Q3 FY2010
Total	**288,232**	**352,575**	**22.3**	**-12.9**	**11.9**	**98.4**
ALL	38,496	34,103	-11.4	-60.4	-17.0	138.4
AMWL	3,053	2,506	-17.9	-56.8	-35.3	92.7
EML	13,316	17,574	32.0	-20.7	28.2	188.7
FML	6,060	7,197	18.8	-7.3	20.2	48.0
HM	14	164	1071.4	4400.0	922.2	575.0
M&M	40,420	56,249	39.2	17.1	19.6	98.2
MBIL	176	171	-2.8	-35.8	-11.4	46.7
PVPL	7,230	8,226	13.8	-3.7	3.8	46.6
SML	5,615	6,564	16.9	-12.4	-21.7	333.1
TML	172,767	218,544	26.5	-5.6	17.7	89.7
TVM	0	0	NA	-100.0	NA	-100.0
VBIL	390	450	15.4	NA	-33.9	15.1
VIL	689	676	-1.9	-73.2	116.3	42.3
JCBL	0	151	NA	NA	NA	NA
Kamaz	6	0	-100.0	NA	NA	NA
MHCV	**142,530**	**156,394**	**9.7**	**-36.4**	**0.7**	**132.4**
ALL	38,132	33,555	-12.0	-60.7	-17.6	137.5
AMWL	3,053	2,506	-17.9	-56.8	-35.3	92.7
EML	10,423	13,779	32.2	-22.7	26.8	193.6
MBIL	176	171	-2.8	-35.8	-11.4	46.7
SML	2,941	3,959	34.6	-1.7	-15.9	625.5
TML	86,720	101,147	16.6	-27.3	8.1	121.6
VBIL	390	450	15.4	NA	-33.9	15.1
VIL	689	676	-1.9	-73.2	116.3	42.3
JCBL	0	151	NA	NA	NA	NA
Kamaz	6	0	-100.0	NA	NA	NA
LCV	**145,702**	**196,181**	**34.6**	**16.0**	**22.7**	**75.2**
ALL	364	548	50.5	-26.0	64.1	208.1
EML	2,893	3,795	31.2	-13.9	34.0	170.1
FML	6,060	7,197	18.8	-7.3	20.2	48.0
HM	14	164	1071.4	4400.0	922.2	575.0
M&M	40,420	56,249	39.2	17.1	19.6	98.2
PVPL	7,230	8,226	13.8	-3.7	3.8	46.6
SML	2,674	2,605	-2.6	-21.5	-30.8	155.3
TML	86,047	117,397	36.4	21.9	27.0	66.3

TML: Tata Motors Ltd.; ALL: Ashok Leyland Ltd.; M&M: Mahindra & Mahindra Ltd., FML: Force Motors Ltd.; EML: Eicher Motors Ltd.; SML: Swaraj Mazda Ltd.; VIL: Volvo India Pvt. Ltd.; HM: Hindustan Motors Ltd.; TVM: Tatra Vectra Motors Ltd.; PVPL: Piaggio Vehicles Pvt. Ltd. Ltd.; MBIL: Mercedes Benz India Pvt. Ltd.; AMWL: Asia Motor Works Ltd.; VBIL: Volvo Buses India Pvt. Ltd.

Source: SIAM, Compiled by IMaCS

The table below presents the market share of key players in the MHCV segment. Two companies—TML and ALL—dominate the MHCV market in India, with a combined market share of 86.2% in 9MFY2010.

MHCV Domestic Sales and Growth

FY	Domestic Sales		Growth (yoy, %)			
	9M FY2009	9M FY2010	9M FY2010	Q1 FY2010	Q2 FY2010	Q3 FY2010
ALL	38,132	33,555	-12.0	-64.2	-63.5	-60.7
AMWL	3,053	2,506	-17.9	-42.6	-56.9	-56.8
EML	10,423	13,779	32.2	-70.4	-52.1	-22.7
MBIL	176	171	-2.8	-45.5	-7.8	-35.8
SML	2,941	3,959	34.6	-83.3	-32.5	-1.7
TML	86,720	101,147	16.6	-59.4	-49.3	-27.3
TVM	0	0	NA	NA	NA	-100.0
VBIL	390	450	15.4	NA	NA	NA
VIL	689	676	-1.9	-34.7	39.6	-73.2
JCBL	0	151	NA	NA	NA	NA
Kamaz	6	0	-100.0	NA	NA	NA
Total	**142,530**	**156,394**	**9.7**	**-61.3**	**-53.1**	**-36.4**

Source: SIAM, Compiled by IMaCS

In the MHCV goods carrier segment, TML is the market leader with a 68% share in 9MFY2010, which represents a sharp increase from 63% in FY2008. While new players have entered the MHCV segment, some of them have limited their presence to niche segments—e.g. VIL in the higher tonnage RV and HT segment; Tatra in the higher tonnage RV segment. Although the competitive intensity has increased with the entry of new players, TML and ALL continue to dominate on account of established product performance, strong brands and customer support, wide servicing network and availability of spares (ease of servicing). Although TML and ALL dominate nearly all sub-segments in MHCV goods carriers market, EML has a strong presence in the 7.5-12 tonnes segment, with a market share of 39% in 9MFY2010. However, while EML's market share in the 7.5-12 tonnes segment has declined from 53% in FY2003, TML's market share has increased from 27% to 47% in 9MFY2010.

MHCV Goods Carrier Sales and Growth

FY	Domestic Sales		Growth (yoy, %)			
	9M FY2009	9M FY2010	9M FY2010	Q1 FY2010	Q2 FY2010	Q3 FY2010
ALL	26,337	22,635	-14.1	-65.7	-9.3	154.9
AMWL	3,053	2,506	-17.9	-56.8	-35.3	92.7
EML	9,283	12,308	32.6	-25.2	25.4	197.2
MBIL	176	171	-2.8	-35.8	-11.4	46.7
SML	1,576	2,653	68.3	3.6	20.9	468.2
TML	75,802	86,852	14.6	-31.7	8.0	128.7
TVM	0	0	NA	-100.0	NA	-100.0
VBIL	0	0	NA	NA	NA	NA
VIL	689	676	-1.9	-58.0	13.4	42.3
JCBL	0	0	NA	NA	NA	NA
Kamaz	6	0	-100.0	NA	NA	NA
Total	**116,922**	**127,801**	**9.3**	**-39.9**	**4.6**	**139.5**

Source: SIAM, Compiled by IMaCS

The MHCV passenger segment has been witness to intense competition between TML and ALL. However, ALL has displaced TML as the market leader since FY2006, mainly because of higher sales in the 12-16.2 tonnes segment. ALL sales increased significantly during FY2006-08 because of higher sales of its luxury bus—Irizar TVS. TML's sales in this segment declined during FY2006, mainly because of production losses due to uncertainty caused by changes in emission norms and the resultant shortages of some critical components. To boost its market presence in this segment, TML has recently entered into a 51:49 Joint Venture with Marcopolo, Brazil for manufacture of high quality buses in India. Its recent success in this segment has resulted in it displacing ALL as the market leader, and TML's share has increased from 43.8% in FY2008 to 50% in 9MFY2010.

MHCV Passenger Carrier Sales and Growth

	Domestic Sales		Growth (yoy, %)			
FY	9M FY2009	9M FY2010	9M FY2010	Q1 FY2010	Q2 FY2010	Q3 FY2010
ALL	11,795	10,920	-7.4	-44.5	-32.5	110.7
AMWL	0	0	NA	NA	NA	NA
EML	1,140	1,471	29.0	-5.0	37.6	148.9
MBIL	0	0	NA	NA	NA	NA
SML	1,365	1,306	-4.3	-9.7	-45.4	2512.5
TML	10,918	14,295	30.9	10.5	8.7	86.7
TVM	0	0	NA	NA	NA	NA
VBIL	390	450	15.4	NA	-33.9	15.1
VIL	0	0	NA	-100.0	-100.0	NA
JCBL	0	151	NA	NA	NA	NA
Kamaz	0	0	NA	NA	NA	NA
Total	**25,608**	**28,593**	**11.7**	**-16.2**	**-14.8**	**106.0**

Source: SIAM, Compiled by IMaCS

The LCV market in India has eight players with TML being the largest player, commanding a market share of 59.8% in 9MFY2010, followed by M&M (28.7%). Unlike the MHCV segment, ALL has a negligible presence in the LCV market. The success of TML's LCVs 207, 207DI, and ACE has enabled the company to significantly increase its market share from 49.7% in FY2004. During FY2008, TML introduced two new products in the LCV passenger segment—Magic and Winger. Alongwith the goods carrier version (ACE), these products have enabled TML to report substantially higher sales since 2006. As can be seen from the table below, PVPL has reported strong LCV sales primarily because of success of its LCV goods vehicles in the <3.5 tonnes segment. The LCV segment his expected to witness increased competition in the next 1-2 years because of expected entry of Bajaj Auto Limited (BAL) and AMWL.

LCV Sales and Growth

FY	Domestic Sales		Growth (yoy, %)			
	9M FY2009	9M FY2010	9M FY2010	Q1 FY2010	Q2 FY2010	Q3 FY2010
ALL	364	548	50.5	-26.0	64.1	208.1
EML	2,893	3,795	31.2	-13.9	34.0	170.1
FML	6,060	7,197	18.8	-7.3	20.2	48.0
HM	14	164	1071.4	4400.0	922.2	575.0
M&M	40,420	56,249	39.2	17.1	19.6	98.2
PVPL	7,230	8,226	13.8	-3.7	3.8	46.6
SML	2,674	2,605	-2.6	-21.5	-30.8	155.3
TML	86,047	117,397	36.4	21.9	27.0	66.3
Total	**145,702**	**196,181**	**34.6**	**16.0**	**22.7**	**75.2**

Source: SIAM, Compiled by IMaCS

In the LCV goods carrier segment, TML is the market leader with a 60.5% share in 9MFY2010. Within this segment, rising preference for lower tonnage vehicles given easier availability of smaller payloads and better operating economies, is resulting in a shift in demand from the traditional 3.5-5 tonnes segment to <3.5 tonnes segment. This sub-segment is also likely to post further gains as the transportation industry shifts towards hub and spoke model. Because of the launch of ACE, TML has been able to significantly improve its market share in the LCV goods carrier segment. The other major manufacturer—M&M—has lost significant market share since 2005. However, TML has lost market share to FML and PVPL. FML had witnessed considerable growth in FY2008 because of the success of its M4 Super and M4 Super CNG vehicles.

LCV Goods Carrier Sales and Growth

FY	Domestic Sales		Growth (yoy, %)			
	9M FY2009	9M FY2010	9M FY2010	Q1 FY2010	Q2 FY2010	Q3 FY2010
ALL	3	0	-100.0	NA	NA	-100.0
EML	1,856	2,531	36.4	-14.5	26.3	172.1
FML	3,005	3,344	11.3	-29.8	14.9	59.1
HM	5	154	2980.0	4400.0	1950.0	NA
M&M	36,252	52,229	44.1	24.2	22.4	98.3
PVPL	7,230	8,226	13.8	-3.7	3.8	46.6
SML	1,265	1,257	-0.6	-14.2	-19.3	61.2
TML	76,268	103,951	36.3	19.5	26.0	69.3
Total	**125,884**	**171,692**	**36.4**	**17.2**	**23.1**	**77.0**

Source: SIAM, Compiled by IMaCS

In the LCV passenger carrier segment, TML is the market leader with a 54.9% share in 9MFY2010, followed by M&M and FML. TML's sales and market share have increased significantly because of increased sales of its passenger carriers in the 5-7.5 tonnes segment positioned as intercity luxury coaches, school buses, and city buses. In June 2007, TML also launched two new models—Magic and Winger—which have been developed on the ACE platform.

LCV Passenger Carrier Sales and Growth

FY	Domestic Sales		Growth (yoy, %)			
	9M FY2009	9M FY2010	9M FY2010	Q1 FY2010	Q2 FY2010	Q3 FY2010
ALL	361	548	51.8	-26.0	64.1	221.1
EML	1,037	1,264	21.9	-13.2	53.1	163.1
FML	3,055	3,853	26.1	19.0	24.4	36.7
HM	9	10	11.1	NA	100.0	-100.0
M&M	4,168	4,020	-3.6	-18.6	-8.6	96.0
PVPL	0	0	NA	NA	NA	NA
SML	1,409	1,348	-4.3	-27.2	-39.0	444.0
TML	9,779	13,446	37.5	37.3	36.4	39.3
Total	**19,818**	**24,489**	**23.6**	**10.2**	**19.7**	**59.6**

Source: SIAM, Compiled by IMaCS

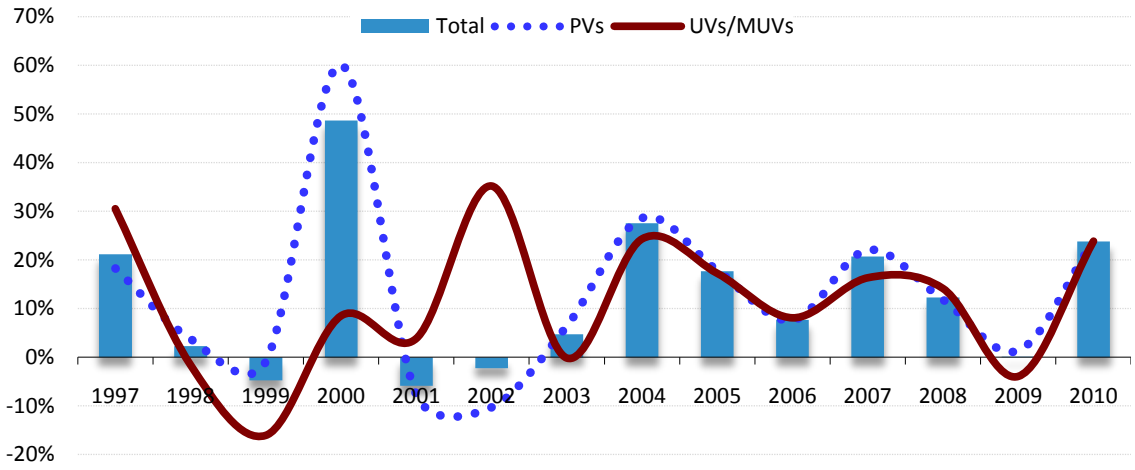
Domestic Sales Trends Follow a Cyclical Pattern

4W

Till around 2001-02, domestic 4W sales had displayed significant volatility with exceptionally high growth rate in some years followed by decline in demand in the following years. However, over the last 6-7 years, a significant increase in the disposable income, reduction in the excise duties, price cuts, intense competition, new product launches, as well as easy availability of finance at lower interest rates have positively affected the demand for 4W. Domestic sales have increased at a 5-year compound average growth rate (CAGR) of 11.5% during FY2005-09, compared with 6.4% during FY1999-2003. The following chart presents the growth pattern in 4W sales in India during the last few years. However, sharp increase in interest rates during FY2007-08 resulted in significant slowdown since early 2007. During FY2009, domestic sales continued to grow at a high rate till the first half of FY2009 but subsequently declined because of tight credit conditions, worsening consumer confidence, and worsening business prospects.

Growth in Domestic 4W Sales

FY

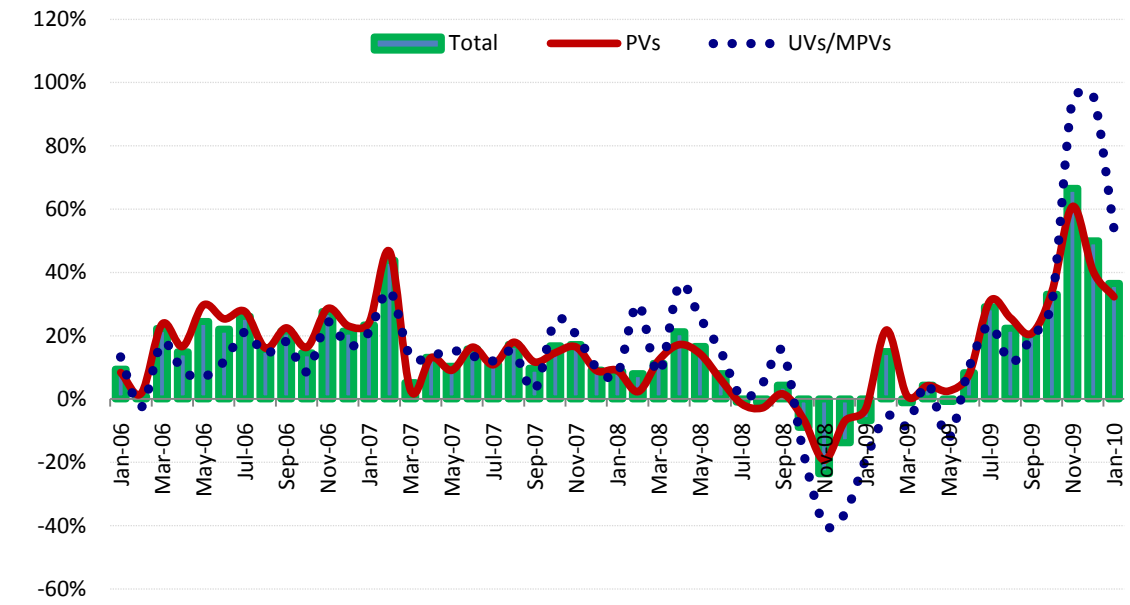


Source: SIAM, IMaCS Analysis

* Data for FY2010 is from Apr-Dec

The sales of 4W in the Indian market follow a seasonal trend with higher sales during the festival season of September-November, and in the months of September and March (because of higher purchases by corporates to avail of depreciation benefits). By comparison, sales stagnate during December (because of impact of model year change), February (because of consumers' expectations of changes in tax structure to be announced in the Union Budget), and April (because of high demand in March). After a slowdown in 2007, domestic sales growth had picked up in Q1FY2009 with domestic sales increasing 15.1% (yoy). However, sales growth declined subsequently and domestic sales increased only 0.6% (yoy) in Q2FY2009. The deceleration during Q2FY2009 morphed into a sharp sales decline of 15.5% (yoy) in Q3FY2009 with all the three major segments reporting significant declines. However, following the significant reduction in excise duties, domestic sales increased 1.4% (yoy) in Q4FY2009. On a yoy basis, overall domestic sales declined sharply from October 2008-January 2009, but recovered somewhat from March 2009. The domestic demand for 4W has sharply recovered during the current year, with growth increasing from 3.8% (yoy) in Q1FY2010 to 23.7% (yoy) in Q2FY2010, and to 48.5% (yoy) in Q3FY2010. The demand revival has been sharp in contrast to H2FY2009, when the volumes suffered on weak consumer confidence caused by global economic crisis and cutback on vehicle financing by banks/NBFCs due to liquidity constraints. Domestic demand has also been supported by competitive pricing adopted by the car manufacturers. While manufacturing costs have increased sharply over the years on commodity price rise and tightening of emission/ safety norms, however adjusted for these, the real price increase has been muted. OEMs have largely passed on benefits of reduction in excise duties, economies of scale and value engineering to end customers, facilitating demand growth. New model launches have also been a key factor in sustaining consumer interest.

Monthly Sales Growth of 4W

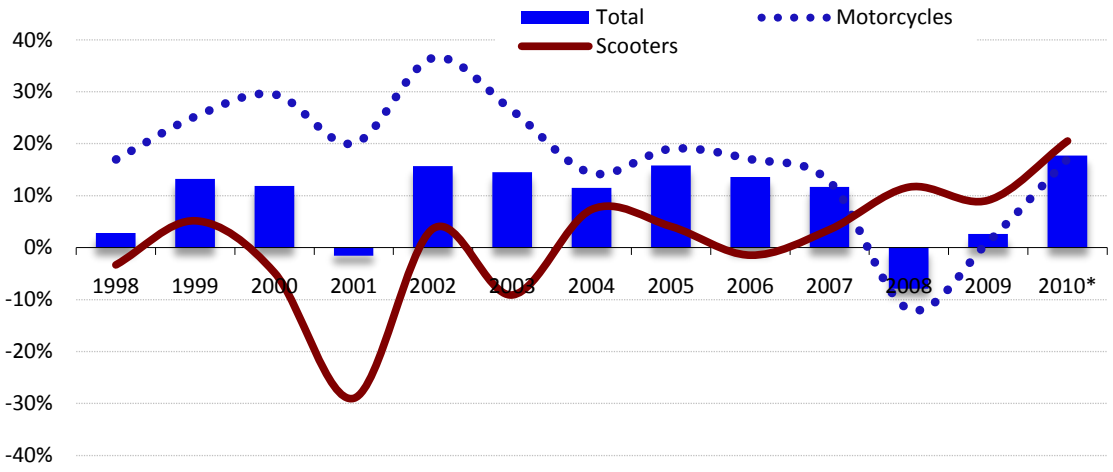


Source: SIAM, IMaCS Analysis

2W

The industry production and sales growth had been high during FY2004-06 with a slowdown from early-2007. An increase in the disposable income, reduction in the excise duty and the resultant price cuts as well as easy availability of finance at lower interest rates have driven affected the demand for 2Ws in the recent years. However, sharp increase in interest rates, restrictive access to financing, and higher fuel prices have resulted in a significant slowdown during FY2007, and a decline in FY2008. However, after a significant decline in production, domestic sales and exports during FY2008, there has been a significant recovery during April-September 2008 (H1FY2009), followed by a sharp decline during Q3FY2009, and subsequent steady recovery thereafter. Within the industry, higher fuel prices, higher fuel efficiency of motorcycles, and shift in consumer preferences have resulted in high growth rates for the motorcycle segment, but slow growth for the scooters and mopeds segment.

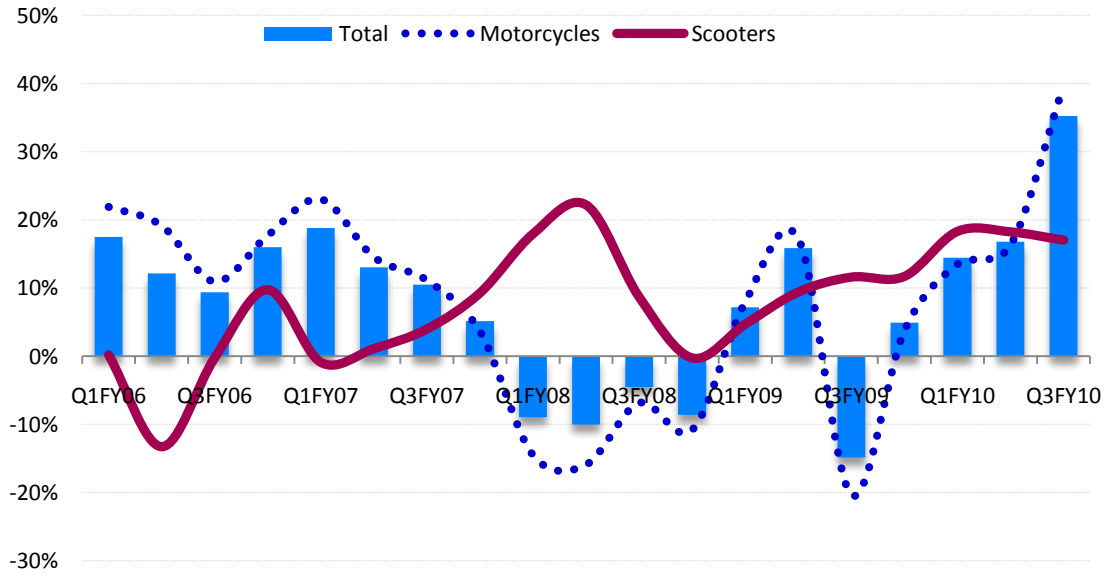
Growth in Domestic 2W Sales



Source: SIAM, IMaCS Analysis
* Data for FY2010 is from Apr-Dec

As can be seen from the figure below, 2W sales declined yoy in each month during March 2007-March 2008. The decline had been because of continuous decline in motorcycle sales. By comparison, yoy sales of scooters increased in each month since November 2006. During FY2009, domestic sales of motorcycles increased at a higher rate. By comparison, scooter sales increased at a lower rate because of a 10% increase in fuel prices in June 2008, which resulted in higher sales for (higher) fuel-efficient motorcycles. However, as noted above, sales of 2Ws declined at a sharp rate in Q3FY2009, mainly because of a sharp decline in motorcycle sales. By comparison, sales of lower-priced scooters and mopeds continued to grow at a moderate rate. Following a decline in domestic sales during Q3FY2009, domestic sales of 2W increased 4.9% (yoy) in Q4FY2009 primarily because of a reduction in excise duty from 12% to 8%, which resulted in a decline in product prices. Since then, domestic sales growth has accelerated to 17% (yoy) in Q2FY2010, and 35.3% (yoy) in Q3FY2010 driven by base effect and a sharp recovery in domestic sales of motorcycles.

Trends in Quarterly Growth for Domestic 2W Sales



Source: SIAM, IMaCS Analysis

CVs

The fortunes of the CV industry are closely related to the general economic conditions prevailing in a country. The demand for transportation is directly proportional to the growth of the economy, mobility of population, and other related factors. In nearly all countries, a close connection between growth in transport, goods traffic and economic growth can be observed. The effects are two-fold:

- Increasing economic development causes more traffic. Increasing amounts of goods, greater transportation distances, enhanced division of labour (globalisation), new production technologies (e.g. just-in-time production), higher levels of commuter traffic, and an increase in business travel are producing a growth in goods transport and production-related passenger transport. The increase in the prosperity of private households, together with the reduction in the working week and the working life, produce an increase in holiday and leisure transport.
- The mobility of people and goods is a precondition for greater productivity and economic growth. The latter result from enhanced division of labour, faster structural change, the exploitation of new raw and other materials and greater competitiveness in international trade.

The demand for freight transportation depends upon the economic cycles especially on the level of agricultural production and industrial activity. Thus, the road transportation and CV industry has strong linkages with the economic growth.

The financial performance of the CV players has been volatile and is affected by the economic cycles to a large extent. During periods of strong GDP growth rate, buoyant industrial activity, and the increase in the demand for transport, CV sales have increased significantly. Conversely, CV sales slowdown in advance of a slowdown in industrial activity. Besides economic expansion, cost and availability of finance, government policies on emission, overloading and scrapping of vehicles also influence CV demand. During FY2004-08, CV sales volumes growth in the domestic market had been healthy (with a sharp slowdown in FY2008) led by buoyant economic activity, easy access to finance

and entry of new truck financing companies, increased momentum in highway construction, better operating economics of new trucks, and Supreme Court order prohibiting overloading of trucks.

Hardening of interest rates because of tight monetary policy can impact CV sales. Inspite of a hardening of interest rates since mid-2004, CV sales had till recently increased at a healthy rate because of increased replacement demand, increased growth in IIP, and increased demand for road transportation. However, continued hardening of interest rates and a slowdown in economic activity has impacted CV sales volumes in FY2008 and FY2009. During 2008-09, domestic CV sales volumes have declined significantly because of early indications of an economic slowdown, slowdown in IIP, tighter credit conditions and constraints in the availability of vehicle finance from banks and non-banking finance companies (NBFCs). Though in-house vehicle financing of major manufacturers has increased, the additional credit flow was unable to fully offset the decrease in credit availability from outside sources. As compared with growth of 11.5% (yoy) in Q1FY2009, domestic CV sales declined from Q2FY2009 to Q1FY2010. A significant proportion of trucks are purchased by small truck operators in the unorganised sector, who may have to pay a relatively higher rate of interest as compared with large-fleet operators, and are more vulnerable to interest rate fluctuations and slowdown in economic activity. However, signs of recovery and base effect have resulted in a recovery in domestic CV sales since mid-2009.

Exports

The period from April-December 2009 saw growth in automobile exports sliding sharply to 10.4% (yoy) with deceleration in almost all segments. Although CV exports declined 14.6% (yoy) in 9MFY2010, the decline was lower than the decline of 28% (yoy) in FY2009.

CVs and 3Ws segments recorded declines of 14.6% (yoy) and 1.9% (yoy) respectively during 9MFY2010. Although exports of 4Ws increased at a high rate of 30% (yoy) in 9MFY2010, this represented a decline from the high rate of 54% in FY2009. 2W export growth slid from 22.5% (yoy) in FY2009 to 7.1% (yoy) in 9MFY2010 attributable to a sharp decline in growth of motorcycle exports.

Although export growth has decelerated sharply in 9MFY2010, there has been a recovery in Q3FY2010 attributable partly to the base effect.

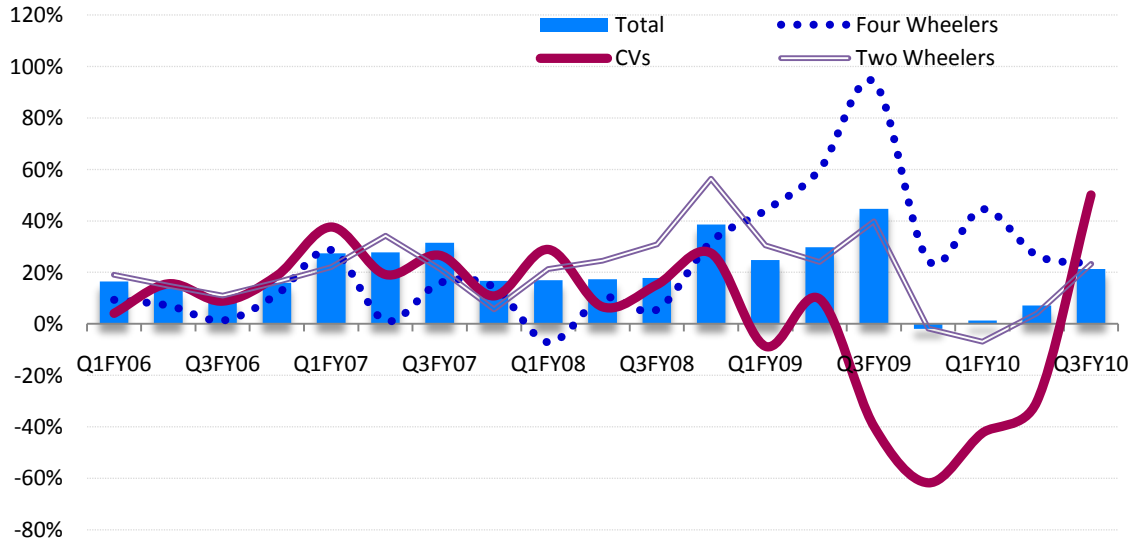
India's Automotive Exports

Excluding tractors

FY	Volume (thousands) 9M FY2009	9M FY2010	Growth (%) 9M FY2010	Q1 FY2010	Q2 FY2010	Q3 FY2010
Four Wheelers (4Ws)	**254**	**331**	**30.1**	**44.6**	**26.6**	**23.3**
PVs	250	328	30.8	46.8	27.5	22.8
UVs	3	2	-35.8	-78.1	-45.0	110.2
MPVs	1	1	36.1	15.0	25.1	51.1
CVs	**36**	**31**	**-14.6**	**-42.4**	**-30.3**	**50.1**
MHCVs	13	15	9.8	-15.6	1.0	42.1
LCVs	23	16	-29.1	-56.6	-46.9	56.6
Two Wheelers (2Ws)	**793**	**849**	**7.1**	**-7.0**	**4.1**	**23.2**
Motorcycles	766	822	7.3	-6.6	4.6	22.9
Scooters	21	23	11.1	-1.7	2.5	29.1
Mopeds	6	4	-26.6	-76.6	-41.0	55.8
Electric	0	0	25.0			
Three Wheelers (3Ws)	**120**	**118**	**-1.9**	**-8.6**	**-2.3**	**2.4**
Passenger Carriers	119	118	-1.4			
Goods Carriers	1	0	-57.8			
Total	**1,203**	**1,329**	**10.4**	**1.3**	**7.1**	**21.3**

Source: SIAM

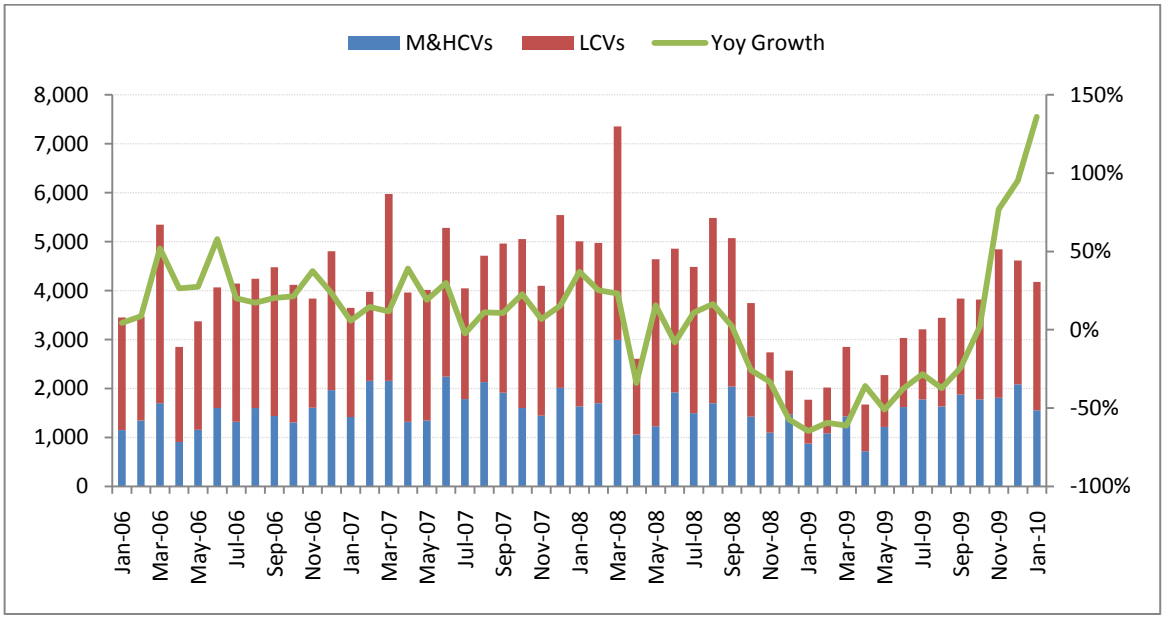
Trends in Quarterly Growth of Automotive Exports



Source: SIAM, Compiled by IMaCS

The key reason for the decline in export growth was the fall in auto sales especially the CVs in the major destination markets of Asia, Africa, US, and Europe.

Monthly Exports of CVs



Source: SIAM

The exports of CVs which were growing till FY2008, registered a decline in early FY2009, though there was minor recovery in Q2FY2009, due to the growth in LCVs exports but that was also short-lived. The rate of decline was lower in Q2FY2010, and subsequently CV exports increased 50% (yoy) in Q3FY2010. However, this was largely due to the base effect.

CVs segment was the worst hit by the economic downturn in the American and European countries, but the decline after peaking in Q3FY2009, has been showing some signs of recovery.

Evidence for the US and Canada suggests that the sharp reduction in car sales since mid-2008 has been magnified by the lack of access to credit, leading many households to postpone their car purchases. This implies that continued improvement in financial market conditions could provide an impetus to car sales.

After a sharp decline in 2008, the US light vehicle market witnessed signs of recovery from the second half of 2009. In fact, December 2009 was the best-performing month of 2009 for the U.S. light-vehicle market, with sales up 15% (yoy) to 1.03 million units. December 2009 was the only month of true (yoy) sales growth in 2009, discounting the August 2009 boost from the government's "cash for clunkers" programme and the mere 35-car increase seen in November 2009. However, overall sales declined 21% in 2009 to 10.43 million.

US Light-Vehicle Sales by Group

Group	Dec-09	Dec-08	% Change	2009	2008	% Change
GM	207,538	220,030	-5.7%	2,071,749	2,954,819	-29.9%
Toyota	187,860	141,949	32.3%	1,770,147	2,217,660	-20.2%
Ford	183,701	138,325	32.8%	1,677,234	2,002,279	-16.2%
Honda	107,143	86,085	24.5%	1,150,784	1,428,765	-19.5%
Chrysler	86,523	89,813	-3.7%	931,402	1,453,122	-35.9%
Nissan	73,404	62,101	18.2%	770,103	951,350	-19.1%
Hyundai	54,845	38,681	41.8%	735,127	675,139	8.9%

Source: IHS Global Insight

For 2010, the economic picture is expected to improve. IHS Global Insight has raised its forecast for light-vehicle sales for 2010 to 11.5 million, attributable to the improvement in overall sales and the momentum that the December 2009 results provide. There are still inherent risks in 2010, however, and it will not be a year of significant sales growth, as the economy is still very cautiously healing and employment is not expected to rise until the second half of 2010.

Light vehicle sales in the EU have been confined within a relatively narrow range (16.7 million to 17.7 million) since the 1990s. However, starting in the summer of 2008 sales decisively dropped out of the floor of this range and subsequently crashed further. The sales rate stepped down abruptly in the summer of 2008, from 1.66 million in June 2009. Within a space of just two months—between June and August 2008, the selling rate fell at an annualised rate of 1.5 million units or 10% and has not recovered.

During 2009, Western European car sales increased only 0.5% to 13.63 million units, as the various scrappage schemes introduced across many markets in the region fulfilled their task and dragged the market out of its catastrophic tailspin. However, light commercial vehicle sales are expected to have declined 28%.

As the scrappage schemes are exhausted (as in the case of the major contributing influence of Germany), 2010 is shaping up to be a highly uncertain year as many economies are still fragile and overall unemployment is still high. However, with sentiment and data emerging from many individual nations moving towards cautious optimism, 2010 may not be a return to the precipitous drops seen in early 2009.

Many countries have introduced car scrapping schemes to cushion the overall downturn in economic activity, boosting sales in the short term. However, crowding-out effects whereby the demand for new cars dampens the demand for other products are likely to have lowered their final impact on economic activity. As these programmes are temporary and consist mostly in a shift of purchases from the future to the present, the surge in sales is likely to be reversed after the schemes end. Evidence on the timing and the magnitude of this “payback effect” varies but suggests that over the short term, car sales may be temporarily depressed by the termination of scrapping programmes in many countries.

As actual sales are well below trend, a rebound in car sales is likely in North America, Japan and the United Kingdom. In contrast, car sales in Germany have been pushed significantly above trend and may weaken going forward. Over the medium term, regions within and outside the developed

economies are likely to experience diverse trends in car sales. In mature markets, such as Europe and North America, trend sales are likely to remain stagnant. By contrast, rapid increases are foreseen in China, which is already now the second largest market for cars. A rapid increase is also projected in India. Medium-term projections suggest that capacity exceeds trend sales by around 20% in the five largest Western European markets considered as a whole. Without an adjustment in capacity, these countries would need to ensure an ongoing strong export performance. By contrast, in North America, capacity is projected to be around 65% of trend sales. Automakers in the NAFTA area would thus need to halt their decline in domestic market share or to rely increasingly on exports in order to avoid excess capacity. The fortunes of Korean and Japanese auto firms are heavily tied to world markets as they export a large part of their production. Maintaining their high levels of capacity utilisation will require them to keep up their strong export performance.

INVESTMENTS

The market is so large and diverse that a large number of players can be absorbed to accommodate buyer needs. The sector not only has global players looking to invest and expand but leading domestic companies are also pumping in huge sums into expanding operation. Some of the investments made by various companies or organisations are as follows:

- Investment Planning Commission has set target of attracting foreign investment worth US$5 billion for the next five years.
- Bharat Forge invested US$ 135 million in its Pune plant for increasing capacity to 240,000 tonnes.
- Amtek Auto is expanding capacity of its casting unit to 70,000 tonnes per annum.
- Rico Auto is investing Rs 350 million to expand its capacity.
- Apollo Tyres plans to invest US$469.58m to increase production capacity in India and abroad.
- Robert Bosch of Germany will invest U$201.40 million in its subsidiaries over the next two years.
- Ceat has inaugurated the Radial tyre greenfield project in Gujarat with an investment of Rs 7,000 million, which will create employment opportunities for 1,000 people.
- Exide industry plans to invest Rs 4,500 million over 2-3 years to expand its production facilities and enter overseas markets to boost exports. It will invest Rs 1,800 million for capacity expansion in 2008-09.

Key Investments in Southern India

- Ford India has formalised its commitment to invest Rs 1,500 crore at its manufacturing facility in Maraimalainagar, near Chennai, by signing a memorandum of understanding with the Tamil Nadu Government. According to the press release issued by the Tamil Nadu Government, the investment will double Ford India's production capacity to two lakh cars annually. It will also enable setting up a new facility to make 2.5 lakh engines a year. It will create employment opportunity for 1,000, in addition to the existing 2,100 people.
- Rasandik Motors, a group company of Rasandik Engineering Industries India plans to set up a three-wheelers unit at Nanjangud in Mysore district of Karnataka. Work on the project was expected to commence by July 2010.
- An Indian automotive site called wheelsunplugged.com suggests that Daimler is planning to invest US$700 million-$1 billion to increase the capacity of its planned truck assembly plant at the SIPCOT Industrial Park in Oragadam, near Chennai in Tamil Nadu. An initial capacity of 70,000

units a year is planned from a 1,000-acre site.

- Mercedes-Benz plans to invest e700 million to increase the production capacity of its trucks in its manufacturing plant in Chennai. While the infrastructure is expected to address future expansion plans of the company, details of the time frame of investment were not disclosed. The German car maker is also on course to increase its headcount three-fold at its R&D centre in Bangalore by next year and will invest close to Rs. 450 crore on infrastructure and people-related costs.
- Supreme-Treves is setting up an automotive components unit with a capacity of 1.50 lakh numbers per annum at Bidadi, Ramnagaram in Bangalore district of Karnataka. Work on the project was underway with completion scheduled for May 2010.
- Global slowdown has impacted expansion plans of Leo Fasteners, operating out of Puducherry. As part of its efforts to streamline, the closely-held family-owned enterprise has lined up expansion plans to boost its capacity by 25%. Currently, the Rs750m Leo has a capacity to produce 1.2 billion parts annually.
- Robert Bosch Engineering and Business Solutions Ltd (RBEI), the engineering and IT services subsidiary of Bosch in India, said it would invest an initial Rs 170 crore in a new centre in Coimbatore, which would be developed in three phases. The company would invest Rs 40 crore in the new centre in 2010. While Rs 50 crore has already been spent in acquiring land and other expenses, another Rs 130 crore has been committed to constructing the building for the new centre.

In the southern states of India there are about 74 projects which are at different stages from planning, implementation, or deferred. Of these, TN has the maximum number of projects (38), followed by 24 in Karnataka, 10 in Andhra Pradesh, and 2 in Kerala. The state-wise details of key investments are given below:

Investments in Automotives

Project Name	Promoter	Cost (Rs. Million)	Implementation Stage
Andhra Pradesh			
Commercial Vehicles (Zahirabad) Project – Expansion	Mahindra & Mahindra Ltd.	NA	Planning
Passenger Cars (Hyderabad) Project	MLR Motors Pvt. Ltd.	7,500	Under Execution
Electric Bikes & Cab (Vijayawada) Project	Cal-On Motors Ltd.	NA	Under Execution
Karnataka			
Passenger Buses (Hosur) Project	Azad Group	NA	Under Execution
Passenger Cars (Bidadi) Project	Toyota Kirloskar Motor Ltd.	32,000	Under Execution
Passenger Electric Cars (Reva) Project - Expansion	Reva Electric Car Co.	NA	Under Execution
Three-Wheelers (Nanjangud) Project	Rasandik Motors Pvt. Ltd.	500	Nascent
Three-Wheelers (Mysore) Project	TVS Motor Co. Ltd.	1,000	Under Execution
Rail Coach Factory (Kanjikode) Project	BEML Ltd.	12,150	Planning
Passenger Buses (Hosur) Project	Azad Group	NA	Under Execution
Passenger Cars (Bidadi) Project	Toyota Kirloskar Motor Ltd.	32,000	Under Execution
Passenger Electric Cars (Reva) Project - Expansion	Reva Electric Car Co.	NA	Under Execution
Three-Wheelers (Nanjangud) Project	Rasandik Motors Pvt. Ltd.	500	Nascent
Three-Wheelers (Mysore) Project	TVS Motor Co. Ltd.	1,000	Under Execution
Tamil Nadu			
Automotive Testing Facility	NATRIP Implementation Society	22,180	Planning
Commercial Vehicals (Chennai) Project	Caparo Vehicle Products India Pvt. Ltd.	5,000	Deferred
Light Commercial Vehicles (Tamil Nadu) Project	Nissan Motors India Pvt. Ltd.	14,500	Deferred
Trucks (Oragadam) Project	DaimlerChrysler India Pvt. Ltd.	30,000	Planning
Passenger Buses (Bagalur) Project	Jaico Automobiles Engg. Pvt. Ltd.	600	Stalled
Passenger Car (Oragadam) Project	Renault Nissan Automotive India Pvt. Ltd.	45,000	Under Execution
Railway Coaches (Chennai) Project - Expansion	Integral Coach Factory	10,000	Under Execution
Kerala			
Rail Coach Factory (Kanjikode) Project	BEML Ltd.	12,150	Planning

Investments in Auto Ancillary Industry

Project Name	Promoter	Cost (Rs. Million)	Implementation Stage
Andhra Pradesh			
Helicopter Cabin (Adibatla) Project	Tata Advanced Systems Ltd.	10,000	Planning
Three Wheelers Automobiles (Medak) Project	MLR Auto Ltd.	10,000	Planning

Project Name	Promoter	Cost (Rs. Million)	Implementation Stage
Auto Components (Naidupet) Project	Greentech Industries (India) Pvt. Ltd.	2,000	Planning
Foundry (Hyderabad) Project	Hinduja Foundaries Ltd.	1,200	Under Execution
Glass & Glazing (Visakhapatnam) Project	Pilkington Automotive India Pvt. Ltd.	860	Under Execution
Automobiles & Servicing Facility (Begumpet) Project	Varun Motors Pvt. Ltd.	NA	Under Execution
Automobiles & Servicing Facility (Nanakaramguda) Project	Varun Motors Pvt. Ltd.	NA	Under Execution
Karnataka			
Crankshaft (Udyambag) Project	Netalkar Power Transmission	200	Deferred
Automotive Components (Shimoga) Project - Expansion	Pearlite Liners Ltd.	50	Deferred
Sheet Metal Components (Dharwar) Project	Automobile Corpn. Of Goa Ltd.	500	Deferred
Foundry (Vasanthanarasapura) Project - Expansion	Sun Castings	NA	Deferred
Auto Components (Kolar) Project	Associated Uhydro Pressing Pvt. Ltd.	NA	Deferred
Auto Fused Components (Vasantpura) Project	Arvind Forging & Engineering	40	Planning
Auto Components (Kanakapura) Project	Bankin Punch Systems Pvt. Ltd.	50	Planning
Automotive Glasses (Kolar) Project	Impact Saftey Glass Pvt. Ltd.	500	Planning
Plastic Automotive Components (Ramnagaram) Project	Precision Compaid Mouldings Pvt. Ltd.	500	Planning
Hitech Components (Dobbaspet) Project	Hi-Tech Toolings	NA	Planning
Gear Shift Assembly (Shanamangala) Project	Lumax DK Auto Industries Ltd.	NA	Planning
Precision Micro Components (Bangalore) Project	Aditya Auto Components	NA	Planning
Automobile Springs (Harohalli) Project	Triple S Spring Technic (P) Ltd.	NA	Planning
Automobile Ancillaries (Hosur) Project	Maruti Suzuki India Ltd.	120	Under Execution
Forgings (Bangalore) Project	Ommi Forge Pvt. Ltd.	NA	Under Execution
Seats (Bangalore) Project	Tata Johnson Controls Automotive Ltd.	NA	Under Execution
Automotive Components (Bidadi) Project	Supreme-Treves Pvt. Ltd.	NA	Under Execution
Dashboard Instruments (Bangalore) Project	Continental Automotive Components India Pvt. Ltd.	NA	Under Execution
Tamil Nadu			
Foundry (Tirullalayapalyam) Project - Expansion	U R Casting & Alloys Pvt. Ltd.	100	Deferred
Foundry (Tudiyalur) Project	Aquasub Engineering	190	Deferred
Gear Boxes & Motors Project	SEW Eurodrive India Pvt. Ltd.	220	Deferred
Fastener (Kancheepuram) Project	Caparo Vehicle Products India Pvt. Ltd.	NA	Deferred
Die Castings (Oragadam) Project	Sundaram-Clayton Ltd.	NA	Deferred

Project Name	Promoter	Cost (Rs. Million)	Implementation Stage
Lighting Systems (Chennai) Project	Anand Automotive Systems Ltd.	NA	Nascent
Foundry (Idigarai) Project	Mohan Engineering Industries	10	Planning
Electric Powered Automobiles (Sivanaraharam) Project	Roadster Automobile Pvt. Ltd.	500	Planning
Diesel Engines (Chennai) Project	Hyundai Motor India Ltd.	NA	Planning
Polypropylene Compounds (Chennai) Project	Machino Polymers Ltd.	NA	Planning
Transport Equipments (Chennai) Project	Amtek Auto Ltd.	NA	Planning
Auto Components (Sriperumbudur) Project	Borg Warner Cooling Systems India Pvt. Ltd.	150	Under Execution
Belts (Madurai) Project	Fenner India Ltd.	250	Under Execution
Automotive Ancillary (Kancheepuram) Project	Sona Somic Lemforder Components Ltd.	300	Under Execution
Diesel Engines (Puppankuppam) Project	Greaves Cotton Ltd.	370	Under Execution
Precision Automobile Components (Mambakkam) Project	Craftsman Automation Pvt. Ltd.	400	Under Execution
Automobile Seating Systems (Mannur) Project - Expansion	Daebu Automotive Seat India Pvt. Ltd.	400	Under Execution
Plastic Fuel Tanks (Chithamanur) Project	Yapp Zoom Automotive Systems Pvt. Ltd.	450	Under Execution
Automobile Ancillary (Erode) Project	Sakthi Auto Components Ltd.	450	Under Execution
Plastic Fuel Tanks (Chennai) Project	Zoom Developers Pvt. Ltd.	650	Under Execution
Wheel Rims (Oragadam) Project	Steel Strips Wheels Ltd.	1,050	Under Execution
Steel Wheel Rims (Sriperumbudur) Project	Steel Strips Wheels Ltd.	2,000	Under Execution
Engines (Maraimalai Nagar) Project [Phase II]	Ford Motor Co.	NA	Under Execution
Automotive Castings (Myleripalayam) Project - Expansion	Amtek India Ltd.	NA	Under Execution
Automobile Ancillaries (Coimbatore) Project- Expansion	Unimech Industries Pvt. Ltd.	NA	Under Execution
Automotive Lighting Equipments (Hosur) Project - Expansion	Fiem Industries Ltd.	NA	Under Execution
Motor Vehicle Parts (Sriperumpudur) Project	Hanyang Automotive India Pvt. Ltd.	NA	Under Execution
Auto Ancillaries (Chennai) Project	Precimax Tech Pvt. Ltd.	NA	Under Execution
Auto Components (Chennai) Project	Takata India Pvt. Ltd.	NA	Under Execution
Aluminium Die Castings (Saiyar) Project	Ashley Alteams India Pvt. Ltd.	NA	Under Execution
Die Casting (Chengalpattu) Project	Sundaram-Clayton Ltd.	NA	Under Execution
Kerala			
Low Trust Engine Test Facilities (Valiamala) Project	Government of India, Department of Space	240	Planning

National Planned Projects

4Ws

In view of the robust domestic demand over the last few years, major players have announced plans for significant expansion in capacity/new projects:

- The six-month wait for a new Swift diesel or DZire sedan and export backlog for A-Star could disappear soon as Maruti Suzuki India is increasing production at its three-lakh-unit Manesar plant by another lakh units this fiscal year. The company is planning a capital expenditure outlay of Rs 21 billion for 2009-10 on re-tooling the plant for production efficiencies, developing new models, R&D activities and expanding production of its K-Series engine.
- Japan's Nissan Motor plans to make India one of its key manufacturing locations for its compact cars, which include products such as Micra. Nissan has said it will invest close to 350 billion yen this year across the globe and India may get a major chunk of the investments. India will be an export hub for compact cars for many countries, especially for Europe from the second half of 2010. Nissan which is scheduled to showcase its enhanced Micra in March of 2010 at the Geneva Motor show, plans to launch the same in India in May 2010. It will be followed up with five more models in three years, including an entry-level car, commercial vehicles to high-end sports cars and sedans.
- Volkswagen has begun production of Skoda Fabia from its Chakan plant near Pune. The first production began in August 2009.

2Ws

Even as some of the major projects entailing huge capacities have come on stream resulting in capacity of around 13 million upa at present, 2W demand growth has experienced a slowdown in FY2008-09. With substantial new capacity expected over the next few years, the industry could suffer from overcapacity. Some of the major projects include:

- Hero Honda has decided to expand its Haridwar manufacturing facility after resolving issues with the State Infrastructure and Industrial Development Corporation of Uttarakhand Ltd (Sidcul) to retain its hold over the 94 acres of vacant land. After speaking with state government officials, the company deposited Rs 32.5 crore as land premium to retain its hold over the vacant land for which it was served notices by Sidcul. Hero Honda also plans to develop a new `breakthrough price' motorcycle for the Indian market. At present, entry-level bikes in India cost around Rs 30,000 and it is believed that Hero Honda may be looking at a pricing of around Rs 20,000 for its low-cost model.
- Japanese two-wheeler maker Yamaha plans to enter the automatic scooter market in India, in the next three years. The company also intends to increase its exports targets to touch 140,000 units in 2010, and 70,000 units in 2009, up from 30,000 units in 2008. The company is also targeting around 500 dealers in India by 2009, up from 400 dealers right now. More dealers for the company is expected to increase its presence and penetration especially in rural areas.

Auto Ancillaries

Various players have announced capacity expansion plans with some of them already brought about additional capacities partially. The present plans include:

- Hero Motors will invest US$19.84 million in association with Austrian firm BRP Powertrain for manufacturing automotive transmissions in India.
- Indian arm of Swedish automotive component maker SKF is investing US$ 30 million in a new ball

bearings manufacturing plant at Haridwar.

- Amtek Auto, the Delhi-based auto component maker has entered into 50:50 joint venture with Sumitomo Metals, which is part of Sumitomo Corporation of Japan. The Rs 100-crore joint venture will produce and sell forged crankshafts that move pistons in car engines. While Amtek will invest 50% in the JV, Sumitomo Metals will pump in 40% and its parent Sumitomo Corporation another 10%. A state-of-the-art facility, equipped with a 4,000-tonne forging press line, has been established in Dharuhera, near Gurgaon. The JV facility is expected to commence commercial production late July this year with an initial installed capacity of about 0.8 million crankshafts per year. The JV will be headed by a CEO from Sumitomo Metals who will work under the directions of the JVs board of directors. Both Amtek and Sumitomo Metals have been actively involved in the technical aspects of the project implementation.

POLICY AND REGULATIONS

Policy Initiatives

The government has taken many initiatives to promote foreign direct investment (FDI) in the industry; a few of them are given below:

- Automatic approval for foreign equity investment up to 100 per cent of manufacture of automobiles and components is permitted.
- The automobile industry has been delicensed.
- There are no restraints on import of components.

Besides the above mentioned initiatives, the government has envisaged the Automotive Mission Plan 2016 to promote growth in the sector. It targets:

- Emerging as the global favourite in the area of design and manufacture of automobiles and auto components.
- Taking the output to US$ 145 billion, accounting for more than 10 per cent of the GDP.
- Offering additional employment to 25 million people by 2016.

Union Budget, 2010-11

On February 26, 2010, the Union Budget for 2010-11 was announced. The Union Budget for 2010-11 was widely expected to signal a return to fiscal consolidation, while also making some announcements on the much awaited structural reforms in areas like implementation of Goods and Services Tax (GST), Direct Tax Code (DTC), and subsidies. The Budget has clearly stuck to the expected lines in announcing a roadmap for fiscal consolidation, including an explicit statement on reduction of Government debt, timelines for implementation of DTC and GST, and partial rollback of Excise Duty. The cut in Direct Tax rates, which was somewhat unexpected, would have a beneficial impact in terms of boosting private consumption and overall sentiments, although it is somewhat difficult to explain in the context of the impending introduction of the DTC.

For the automotives and auto ancillaries sector, the key proposals were:

- Hike in excise duty from 8% to 10%

- excise duty on big cars, Sports Utility Vehicles (SUVs) and Multi Utility Vehicles (MUVs) proposed to be increased from 20% to 22%. The additional duty component was proposed to be retained at Rs. 15,000 for passenger vehicles with 1,500-1,999 cc engine capacity and Rs. 20,000 for passenger vehicles having engine capacity of greater than 2,000cc
- Excise duty of Re 1 per litre imposed on petrol and diesel and increase in customs duty by 5%
- Allocation for road development increased by 13% to Rs. 198.94 billion
- Weighted deduction on in-house R&D expenditure increased from 150% to 200%
- Excise duty of 4% imposed on electric cars and vehicles; Critical parts and assemblies of such vehicles exempted from basic customs duty and special additional duty with CVD of 4% being imposed

In the backdrop of increasing commodity prices, expected increase in interest rates, and expected cost increases on implementation of Euro III and IV emission norms from April 2010; the increase in excise duty rates by 2% is likely to be passed on in the form of increase in prices and is partially negative. This however is likely to be compensated by exemptions on personal income tax rates, leading to higher disposable income for 2W and passenger vehicle buyers. The government's thrust on rural and infrastructural development remains a key positive. The increased weighted deduction rate for in-house R&D would encourage higher R&D allocations and thus technical capacity in India that has become a critical automotive market.

While CV prices have been increased by 3.5-4% in 2009-10 by all manufacturers, the current increase in excise duty is expected to result in further price hikes. While the demand has been strong during the second half of FY2010 partly driven by pre-buying in anticipation of price hikes post implementation of Euro III and IV emission norms from April 2010, the continued increase in commodity prices and cost increases post implementation of emission norms may further result in increased prices of CVs dampening the demand in 2010-11. Additionally, the diesel price increase may adversely impact the profitability of transport operators and thus the demand for CVs in the short term. However, the government's thrust on rural and infrastructural development remains a key positive. The increased weighted deduction rate for in-house R&D would encourage higher investments.

For auto ancillary companies, the increase in weighted deduction on in-house R&D expenditure would encourage companies to invest in technology development. The interest subvention scheme extended for a period of one year could be a positive for some SME exporters. Increase in MAT rates will have a negative impact on some ancillaries currently paying lower taxes. The positives on the demand side for the automobile industry, through cuts in personal income taxes, would support growth for the industry.

REVIEW OF FINANCIAL PERFORMANCE

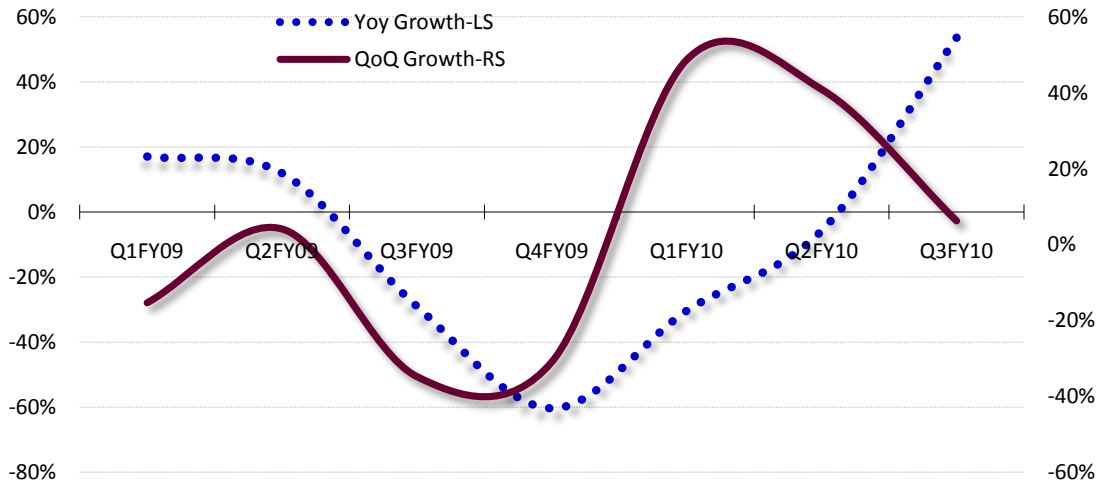
The financial performance auto and auto ancillary industry in India had suffered during FY2009, especially in Q3FY2009, while the performance has improved marginally in Q4FY2009. The main reason for the poor performance besides decline in sales can be associated with the increased interest burden. However, domestic demand recovered sharply during FY2010, supported by fiscal incentives and a revival in the underlying economy.

Automotive Sector

Southern Region

During Q3FY2010, **listed companies in the automotive sector with registered offices in the Southern Region** reported a 54% (yoy) increase in operating income (OI) to Rs. 30.04 billion. OI (yoy) growth was healthy at 17% in Q1FY2009, but declined to 12% in Q2FY2009, as the early signs of recession became evident. The growth in OI during the first half of FY2009 was replaced by a sharp decline in OI (yoy)—at 29% in Q3FY2009, 60% in Q4FY2009, and 6% in Q2FY2010. In that context, the sharp increase in growth during Q3FY2010 is partly attributable to the base effect. On a qoq basis however, OI growth was negative at 35% in Q3FY2009, and 31% in Q4FY2009, but OI increased 41% (qoq) in Q2FY2010 and 6% (qoq) in Q3FY2010, as there have been signs of recovery following the sharp decline in sales during late-2008. The slow (qoq) increase in Q3FY2010 is partly attributable to seasonal effects.

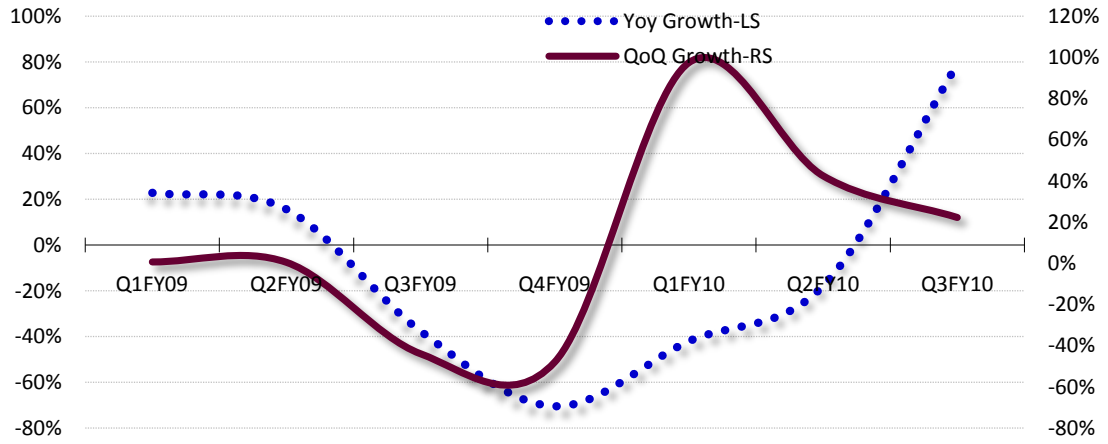
Trends in Operating Income Growth—Southern Region



Source: Compiled by IMaCS

Although OI increased 54% (yoy) in Q2FY2010, raw material costs increased 79% (yoy) in Q2FY2010, reversing four successive quarters of declines. Raw material costs had declined from the latter-half of FY2009 primarily because of a decline in purchase volumes (because of lower final product demand) and decline in prices. However, raw material costs have increased (yoy) in Q3FY2010 because of base effect and recent sharp increases in metallics and plastic prices.

Trends in Raw Material Costs—Southern Region



Source: Compiled by IMaCS

Although raw material costs have declined during 9MFY2010, other costs have increased—employee costs, selling and administrative costs). This is attributable to both stickiness of employee costs in the short term, and the higher marketing expenses incurred to push sales during the ongoing downturn.

The following tables provide a quarterly performance comparison of listed auto companies in the Southern region.

Financial Performance—Southern Region

Percent of OI

	FY2009				FY2010			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Net Sales/OI	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	
Raw Material Cost	83.0	80.2	69.0	52.0	69.1	69.9	80.4	
Employee Costs	8.1	7.9	10.1	10.5	10.9	8.8	8.6	
Other Operating Costs	3.9	6.4	15.3	30.0	17.0	13.6	2.4	
Cost of Sales	**95.0**	**94.5**	**94.3**	**92.5**	**97.0**	**92.3**	**91.4**	
OPBDIT	**5.0**	**5.5**	**5.7**	**7.5**	**3.0**	**7.7**	**8.6**	
Interest	0.7	1.3	3.2	3.7	2.4	1.3	1.3	
Depreciation	2.5	2.6	3.2	3.7	3.5	2.7	2.6	
OPBT	**1.8**	**1.6**	**-0.7**	**0.1**	**-2.9**	**3.7**	**4.7**	
Other Income	0.4	0.9	0.4	1.7	3.2	0.4	0.2	
PBT	**2.2**	**2.6**	**-0.3**	**1.8**	**0.3**	**4.1**	**4.9**	
Tax	0.9	1.0	0.1	-1.1	0.1	0.7	1.4	
PAT	**1.3**	**1.6**	**-0.4**	**2.9**	**0.2**	**3.4**	**3.5**	

Source: Compiled by IMaCS

Financial Performance—Southern Region

Rs. Million

	FY2009				FY2010			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Net Sales/OI	**28,845**	**30,021**	**19,563**	**13,507**	**20,080**	**28,286**	**30,042**	
Raw Material Cost	23,943	24,065	13,494	7,023	13,871	19,765	24,166	
Employee Costs	2,344	2,364	1,972	1,419	2,181	2,475	2,576	
Other Operating Costs	1,111	1,930	2,990	4,057	3,423	3,858	712	
Cost of Sales	**27,398**	**28,359**	**18,455**	**12,498**	**19,475**	**26,098**	**27,455**	
OPBDIT	**1,447**	**1,661**	**1,108**	**1,009**	**605**	**2,188**	**2,587**	
Interest	212	391	623	502	474	370	384	
Depreciation	711	778	627	494	706	775	783	
OPBT	**524**	**493**	**-142**	**13**	**-574**	**1,043**	**1,420**	
Other Income	110	277	85	233	643	107	51	
PBT	**634**	**770**	**-57**	**246**	**69**	**1,150**	**1,471**	
Tax	263	295	15	-142	20	194	407	
PAT	**371**	**475**	**-72**	**388**	**48**	**956**	**1,064**	

Source: Compiled by IMaCS

As can be seen from the table above, the high increase in OI resulted in a steep improvement in operating margins during Q2FY2010 and Q3FY2010. Further, net margins have shown signs of improvement during Q2FY2010 and Q3FY2010.

Financial Performance—Southern Region

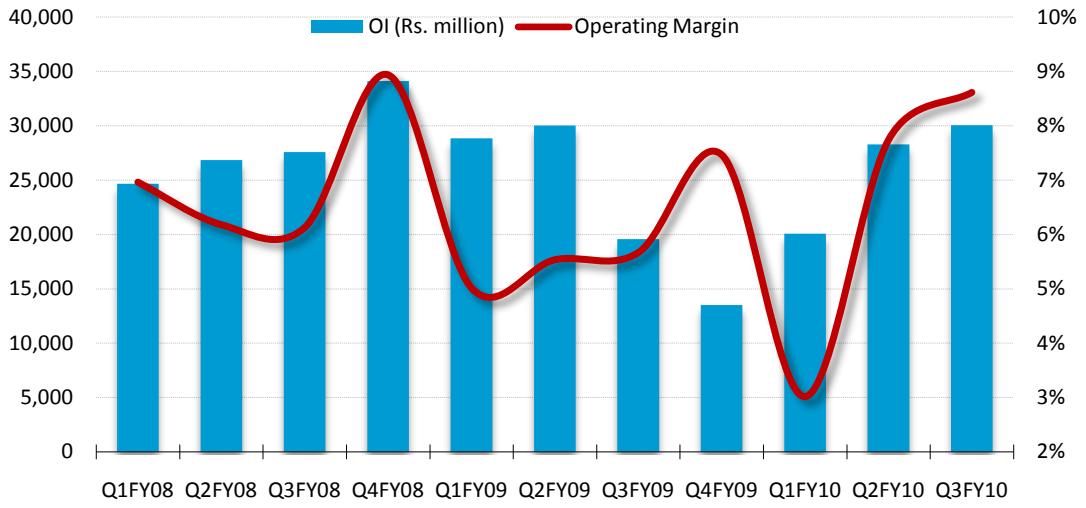
Rs. Million, except percentages

	Rs. Million		Change (%)	% of OI	
9MFY	2010	2009		2010	2009
Net Sales/OI	**78,408**	**78,429**	**0.0**	**100.0**	**100.0**
Raw Material Cost	57,801	61,502	-6.0	73.7	78.4
Employee Costs	7,233	6,680	8.3	9.2	8.5
Other Operating Costs	7,993	6,031	32.5	10.2	7.7
Cost of Sales	**73,027**	**74,213**	**-1.6**	**93.1**	**94.6**
OPBDIT	**5,381**	**4,216**	**27.6**	**6.9**	**5.4**
Interest	1,228	1,225	0.2	1.6	1.6
Depreciation	2,264	2,116	7.0	2.9	2.7
OPBT	**1,889**	**875**	**115.9**	**2.4**	**1.1**
Other Income	801	471	69.8	1.0	0.6
PBT	**2,690**	**1,346**	**99.8**	**3.4**	**1.7**
Tax	621	572	8.5	0.8	0.7
PAT	**2,069**	**774**	**167.2**	**2.6**	**1.0**

Source: Compiled by IMaCS

On a quarterly basis in southern India, operating margins declined from 8.9% in Q4FY2008 to 5-6% till Q3FY2009, but recovered to 7.5% in Q4FY2009. After a marginal recovery in Q4FY2009, the operating margins fell to 3% in Q1FY2010, before increasing to 7.7% in Q2FY2010, and 8.6% in Q3FY2010.

Trends in Operating Income and Operating Margins (Southern India)



Source: Compiled by IMaCS

If we analyse the performance of the auto companies in the Southern of the country, their key performance indicators, report an improved performance from Q2FY2010, compared to Q1FY2010. There has been an increase in profits as well as overall profitability.

Financial Performance Indicators—Southern Region

	Net Sales		PBDIT		PAT		PBDIT/Sales		PAT/Sales	
Q3FY2010	(Rs cr)	(yoy)	(Rs cr)	(yoy)	(Rs cr)	(yoy)	Q1 FY2010	Q3 FY2010	Q1 FY2010	Q3 FY2010
HMT	44	51.2%	-7	NA	-12	NA	-31.1%	-16.7%	-44.5%	-28.1%
VST Till. Tract.	72	3.0%	12	-6.9%	8	-6.5%	19.9%	16.8%	12.1%	10.5%
Ashok Leyland	1,816	80.7%	207	129.3%	105	453.9%	7.9%	11.4%	0.9%	5.8%
TVS Motor Co.	1,073	25.8%	69	53.4%	24	NA	6.4%	6.4%	1.9%	2.2%

Source: Compiled by IMaCS

India

During FY2009, the all India auto sector net sales declined by 1.5% (yoy) compared to the previous year while during the same period, the decline in net sales for companies in southern region was to the tune of 19%. However, FY2010 has shown signs of recovery with a 7% (yoy) increase in OI during Q1FY2010, followed by sharply higher growth of 20% (yoy) in Q2FY2010, and 59% (yoy) in Q3FY2010. The decline in sales had led to a sharp fall in the net profit for the auto companies in FY2009 but these have more than doubled in Q2FY2010 compared to Q2FY2009. However, net profits declined 23% (qoq) in Q3FY2010 attributable to a marginal decline in operating margins, accompanied by a 73% (qoq) decline in other income. Nevertheless, net profit margin has increased to 7.4% in Q3FY2010 compared to recent low of 1.3% in Q3FY2009. For the southern region, net margins have improved from -0.4% in Q3FY2009 to 3.5% in Q3FY2010. The lower margins and poorer financial performance for the Southern region is largely because of the dominance of CV companies in the sample of listed companies.

Financial Performance of the Auto Sector (All India)

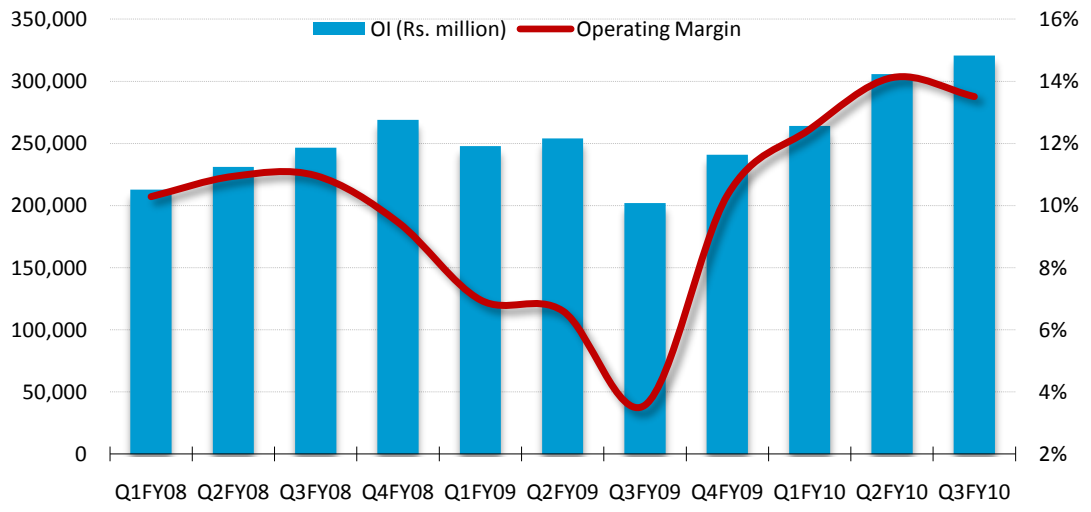
Rs. Million, except percentages

	Rs. Million		Change (%)	% of OI	
9MFY	2010	2009		2010	2009
Net Sales/OI	**890,966**	**703,975**	**26.6**	**100.0**	**100.0**
Raw Material Cost	633,596	528,773	19.8	71.1	75.1
Employee Costs	46,507	41,486	12.1	5.2	5.9
Other Operating Costs	91,392	92,420	-1.1	10.3	13.1
Cost of Sales	**771,496**	**662,679**	**16.4**	**86.6**	**94.1**
OPBDIT	**119,470**	**41,296**	**189.3**	**13.4**	**5.9**
Interest	11,281	7,456	51.3	1.3	1.1
Depreciation	21,921	18,711	17.2	2.5	2.7
OPBT	**86,269**	**15,128**	**470.3**	**9.7**	**2.1**
Other Income	19,730	21,635	-8.8	2.2	3.1
PBT	**105,998**	**36,763**	**188.3**	**11.9**	**5.2**
Tax	28,240	10,371	172.3	3.2	1.5
PAT	**77,758**	**26,392**	**194.6**	**8.7**	**3.7**

Source: Compiled by IMaCS

On a quarterly basis in all India, operating margins declined from 11% in Q3FY2008 to 3.6% in Q3FY2009, but recovered to 14.1% in Q2FY2010. They have declined marginally to 13.5% in Q3FY2010 primarily because of recent increases in input and employee costs. Nevertheless, operating margins in Q2FY2010 and Q3FY2010 are significantly higher than those realised during FY2008 (refer figure below).

Trends in Operating Income and Operating Margins (All India)



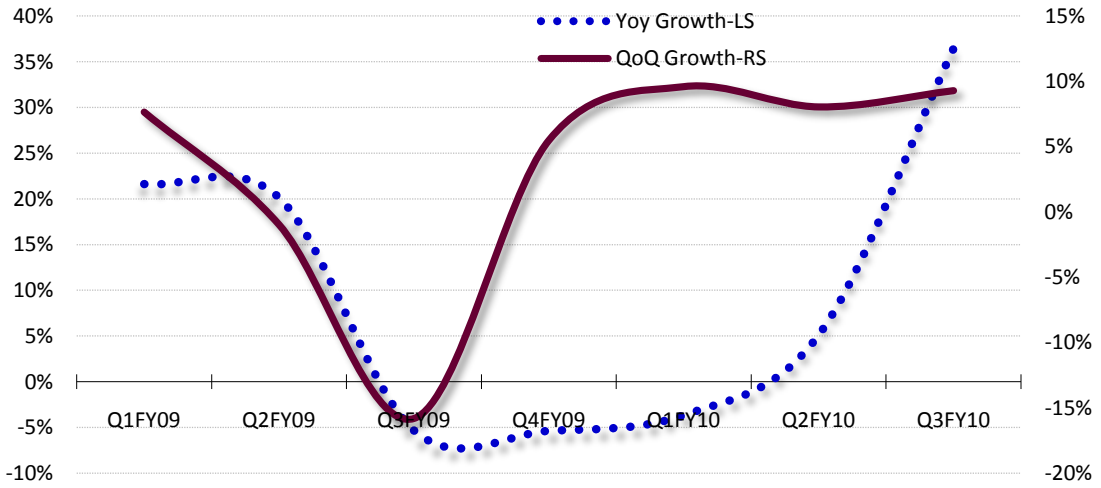
Source: Compiled by IMaCS

Auto Ancillaries/Components Sector

Southern Region

During Q3FY2010, **listed auto ancillary companies with registered offices in the Southern Region** reported a 36% (yoy) increase in operating income (OI) to Rs. 65.92 billion. OI (yoy) growth was healthy at 21.6% in Q1FY2009 and 20.1% in Q2FY2009, but was negative for the subsequent three quarters. Thus, the (yoy) growth in Q2FY2010 reversed three successive quarters of decline. Even on a (qoq) basis, OI increased 9% in Q3FY2010, representing four successive quarters of increases.

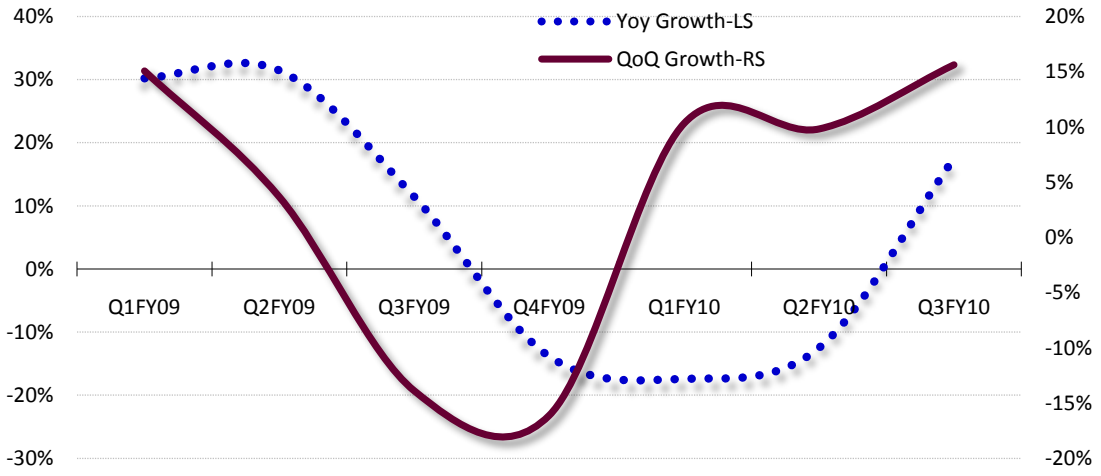
Trends in Operating Income Growth—Southern Region



Source: Compiled by IMaCS

Along with a 36% (yoy) increase in OI, raw material costs increased 18% (yoy) in Q3FY2010, reversing three quarters of (yoy) declines. Raw material costs had been declining since the latter-half of FY2009 primarily because of a decline in purchase volumes (because of lower final product demand) and decline in prices. However, raw material costs have shown signs of increase from Q2FY2010 primarily because of a rebound in commodity prices.

Trends in Raw Material Costs—Southern Region



Source: Compiled by IMaCS

The following tables provide a quarterly performance comparison of listed auto ancillary companies in the Southern region.

Financial Performance—Southern Region

Percent of OI

	FY2009				FY2010			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Net Sales/OI	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	
Raw Material Cost	64.8	67.8	69.3	55.2	55.5	56.5	59.7	
Employee Costs	8.3	8.1	9.1	8.7	8.8	8.8	8.3	
Power & Fuel	0.1	0.1	0.1	0.1	0.1	0.1	0.1	
Other Operating Costs	15.7	15.9	15.9	26.7	21.0	19.1	17.3	
Cost of Sales	**88.8**	**91.8**	**94.4**	**90.6**	**85.5**	**84.5**	**85.4**	
OPBDIT	**11.2**	**8.2**	**5.6**	**9.4**	**14.5**	**15.5**	**14.6**	
Interest	1.4	1.2	2.0	1.8	0.9	0.9	0.7	
Depreciation	3.4	4.0	5.3	4.4	4.3	4.3	3.7	
OPBT	**6.4**	**2.9**	**-1.6**	**3.3**	**9.4**	**10.4**	**10.2**	
Other Income	2.2	1.2	2.1	0.4	1.6	1.2	1.0	
PBT	**8.6**	**4.1**	**0.5**	**3.7**	**11.0**	**11.6**	**11.2**	
Tax	2.5	1.5	0.3	1.5	3.6	3.9	3.5	
PAT	**6.0**	**2.6**	**0.2**	**2.2**	**7.4**	**7.7**	**7.7**	

Source: Compiled by IMaCS

Financial Performance—Southern Region

Rs. Million

	FY2009				FY2010			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Net Sales/OI	**57,974**	**57,404**	**48,317**	**50,957**	**55,839**	**60,322**	**65,917**	
Raw Material Cost	37,542	38,912	33,505	28,108	31,009	34,052	39,371	
Employee Costs	4,797	4,630	4,385	4,426	4,936	5,319	5,458	
Power & Fuel	42	49	45	35	46	56	64	
Other Operating Costs	9,076	9,099	7,663	13,597	11,751	11,527	11,407	
Cost of Sales	**51,457**	**52,689**	**45,598**	**46,166**	**47,741**	**50,954**	**56,301**	
OPBDIT	**6,517**	**4,715**	**2,719**	**4,791**	**8,098**	**9,369**	**9,617**	
Interest	836	713	956	901	493	526	479	
Depreciation	1,979	2,313	2,540	2,230	2,384	2,577	2,412	
OPBT	**3,702**	**1,689**	**-777**	**1,661**	**5,222**	**6,266**	**6,726**	
Other Income	1,256	691	1,011	216	906	702	688	
PBT	**4,958**	**2,380**	**233**	**1,877**	**6,128**	**6,968**	**7,413**	
Tax	1,473	882	129	770	2,002	2,346	2,325	
PAT	**3,485**	**1,498**	**105**	**1,106**	**4,126**	**4,621**	**5,088**	

Source: Compiled by IMaCS

As can be seen from the table above, the sharp increase in operating costs resulted in a steep decline in operating margins during FY2009. However, operating margins have shown significant improvement during FY2010 attributable to moderation in input costs. Although operating margins have declined from 15.5% in Q2FY2010 to 14.6% in Q3FY2010, they are substantially higher than achieved during FY2008.

Financial Performance—Southern Region

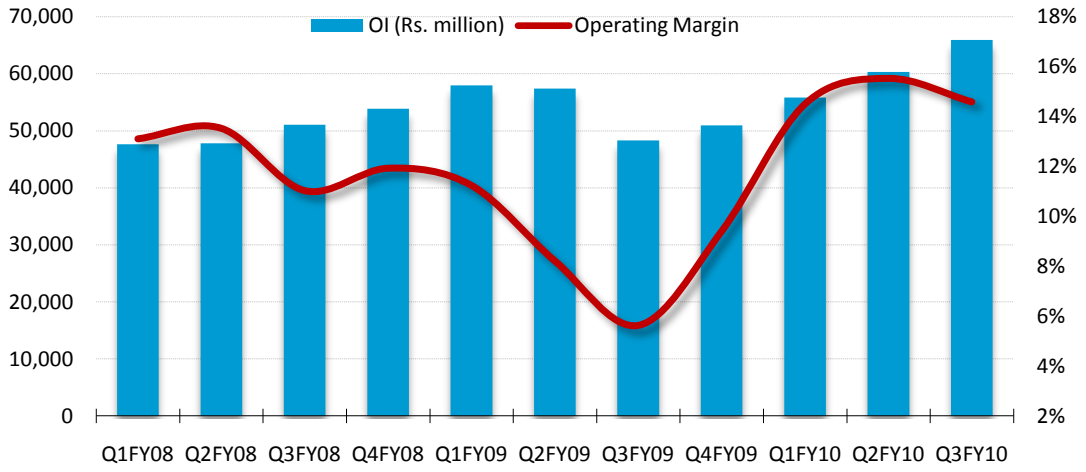
Rs. Million, except percentages

	Rs. Million		Change (%)	% of OI	
9MFY	2010	2009		2010	2009
Net Sales/OI	**182,079**	**163,695**	**11.2**	**100.0**	**100.0**
Raw Material Cost	104,432	109,959	-5.0	57.4	67.2
Employee Costs	15,713	13,811	13.8	8.6	8.4
Power & Fuel	165	136	21.7	0.1	0.1
Other Operating Costs	34,685	25,839	34.2	19.0	15.8
Cost of Sales	**154,995**	**149,744**	**3.5**	**85.1**	**91.5**
OPBDIT	**27,084**	**13,950**	**94.1**	**14.9**	**8.5**
Interest	1,498	2,505	-40.2	0.8	1.5
Depreciation	7,373	6,832	7.9	4.0	4.2
OPBT	**18,213**	**4,614**	**294.8**	**10.0**	**2.8**
Other Income	2,296	2,958	-22.4	1.3	1.8
PBT	**20,509**	**7,572**	**170.9**	**11.3**	**4.6**
Tax	6,674	2,484	168.6	3.7	1.5
PAT	**13,835**	**5,087**	**172.0**	**7.6**	**3.1**

Source: Compiled by IMaCS

On a quarterly basis in southern India, operating margins declined from 11.9% in Q4FY2008 to 5.6% in Q3FY2009, but recovered to 9.4% in Q4FY2009. They have further improved to 15.5% in Q2FY2010, but declined to 14.6% in Q3FY2010.

Trends in Operating Income and Operating Margins (Southern India)



Source: Compiled by IMaCS

India

During FY2009, the all India auto ancillary sector net sales grew by 5.2% compared to the previous year, while they have increased by 11.2% (yoy) in 9MFY2010. Though there was a small growth in sales there was a sharp fall in the net profit for the auto ancillary companies in FY2009. However, net profits and margins have improved substantially in FY2010 primarily because of higher operating margins. All India the net profits increased to Rs. 9,916 million in Q3FY2010 (compared with net loss of Rs. 374 million in Q3FY2009), while in the southern region they increased by 4,760% (yoy) in Q3FY2010. Net profit margin declined marginally to 6.5% in Q3FY2010 compared to 6.8% in Q2FY2010, while the same for the southern region remained at 7.7% in Q2FY2010 and Q3FY2010.

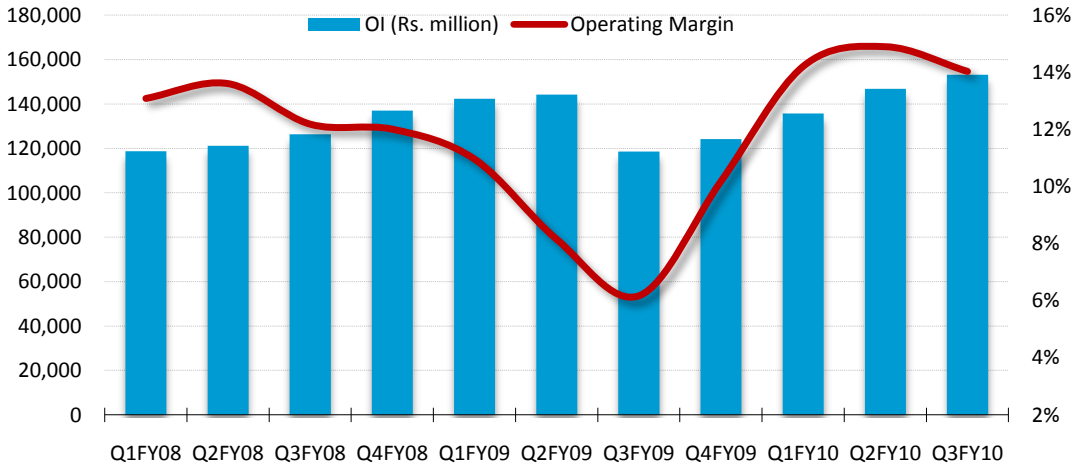
Financial Performance of the Auto Ancillary Sector (All India)

Rs. Million, except percentages

	Rs. Million		Change (%)	% of OI	
9MFY	2010	2009		2010	2009
Net Sales/OI	**435,721**	**405,153**	**7.5**	**100.0**	**100.0**
Raw Material Cost	262,145	273,175	-4.0	60.2	67.4
Employee Costs	34,409	31,054	10.8	7.9	7.7
Power & Fuel	1,149	1,271	-9.6	0.3	0.3
Other Operating Costs	75,377	64,988	16.0	17.3	16.0
Cost of Sales	**373,080**	**370,487**	**0.7**	**85.6**	**91.4**
OPBDIT	**62,641**	**34,666**	**80.7**	**14.4**	**8.6**
Interest	8,295	9,453	-12.3	1.9	2.3
Depreciation	17,541	15,777	11.2	4.0	3.9
OPBT	**36,805**	**9,435**	**290.1**	**8.4**	**2.3**
Other Income	5,867	7,934	-26.0	1.3	2.0
PBT	**42,673**	**17,370**	**145.7**	**9.8**	**4.3**
Tax	14,022	5,431	158.2	3.2	1.3
PAT	**28,650**	**11,939**	**140.0**	**6.6**	**2.9**

On a quarterly basis all India, operating margins declined from 11% in Q1FY2009 to 6.2% in Q3FY2009, but recovered to 10.2% in Q4FY2009. This has further improved to 14.9% in Q2FY2010, but declined to 14% in Q3FY2010.

Trends in Operating Income and Operating Margins (All India)



Source: Compiled by IMaCS

INDUSTRY OUTLOOK

The Indian Automotive Industry had till recently been significantly affected by the high interest rates and tight credit, overall slowdown in the economic activity, lower consumer confidence and prevailing uncertainty in the job market. However this scenario has changed as the domestic sales have revived

during 2009-10. The roll-out of Goods and Services Tax (GST) is expected in 2011 and is likely to have a positive impact on the industry, as it is expected to reduce the overall cost to the consumer. At present, the effective tax rate (including excise duty/CENVAT, VAT and CST) applicable on passenger vehicles range between 24-38% depending on the size of the car. With the implementation of GST, the effective tax rate is likely to come down, the benefit of which is expected to be passed on to the end-consumer, further supporting demand. With large cars (including SUVs) commanding a higher effective tax rate at present, the impact could be higher on the large car segment assuming no other additional tax is not implemented on large cars.

But at the same time, the long-term outlook of the industry still remains optimistic due the strong underlying industry and economy fundamentals. The Indian Economy, even on conservative estimates, is likely to grow at 7.5-8 percent over the next few years. At the same time, India's focus on infrastructure, rising disposable incomes, lowering age of first time car/two wheeler users, shorter replacement cycles, lower car penetration, all point towards the long-term growth of the industry. It is also expected that input costs pressures could moderate and there will thus be a downward trend in commodities' prices - another boost for the automotive industry.

Moreover, in recent years several global brands have started establishing their base in India. India is not only being seen as a huge potential market but also as a favourable destination capable of developing into a global manufacturing hub. Developments of such an order will mandate conscious monitoring and development in several support areas on the market as well as the industry side.

Using the expected growth rates for passenger vehicles, M&HCV's, LCV's, 3Ws and two wheelers and the average prices of these vehicles, it is estimated that the Indian automotive industry which has seen significant growth in the past, is expected to grow at the rate of about 13% per annum over the next decade to reach a size of around US$165-175 billion by 2022. The growth of the auto sector will tremendously boost the share of manufacturing in GDP, exports and employment since the auto sector has deep linkages.

The size of global auto component industry is expected to grow at 12% over the next decade to reach around US$160 billion by 2016. India's exports of auto components would grow to US$4.5 billion compared with US$1.8 billion in 2005.

India is estimated to have the potential to become one of the top five auto component manufacturing economies by 2025. The Indian auto component industry is moving rapidly towards grabbing the global auto component outsourcing market, which is expected to be worth US$700 billion by 2015. With the spiralling demand from the domestic and international auto companies, the industry is emerging as one of the fastest growing manufacturing sectors in India and globally.

Industry and Economic Update has been prepared by ICRA Management Consulting Services Limited (IMaCS) for the Confederation of Indian Industry (CII).

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