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India Autos

UBS Evidence Lab suggests pent-up demand for PVs not 2Ws

Equities

India
Automobiles

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UBS Evidence Lab surveys auto consumers in 13 cities

With a change in the government and the bottoming out of economic growth, the India auto sector's performance has been strong. We believe consensus expects volume growth in H2 FY15 and FY16 to surprise on the upside, as pent-up demand following two years of sluggish growth starts to kick in. UBS Evidence Lab surveyed 1,700 people in 13 cities to gauge the level of pent-up demand for two wheelers (2Ws) and passenger vehicles (PVs) over the next 12 to 24 months. The survey also looked at shifts in preferred category and brand to help us gauge the competitive landscape.

Low pent-up demand for 2Ws; Honda gains, Bajaj weakens, Hero unaffected

While 47% of potential 2W buyers have postponed their purchases, only 30% of potential buyers intend to buy a two wheeler in the next 24 months. The share of potential buyers, as a percentage of current owners, is only 33%. We therefore expect low pent up demand for 2Ws. Our survey suggests Bajaj's significant market share loss in Tier II & III cities has been Honda's gain. Hero's market share in Tier II & III cities is unlikely to be affected and there is no shift away from 100cc motorcycles. We upgrade Hero from Sell to Neutral. Royal Enfield gains meaningful market share in Tier I cities among our respondents, suggesting rapid sales growth of premium motorcycles.

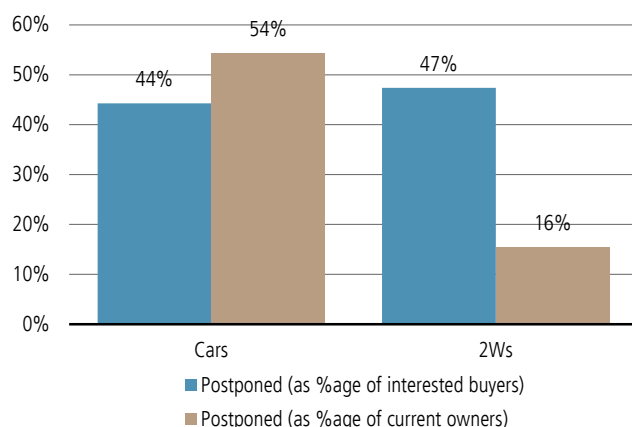
Strong pent-up demand evident in PVs; a shift to premium products

Almost 47% of respondents intending to buy a car plan to do so in the next 24 months. The share of respondents planning to buy cars, as a percentage of current owners, is 115%. We therefore expect strong pent-up demand for PVs in FY16 and FY17. While Maruti is dominant among current owners, our survey suggests a sharp fall in Maruti's market share among potential buyers. Despite this, we remain confident about Maruti as customers might not be aware of its new products, which we think could help it capture a bigger share of the utility vehicle (UV) and premium segments. Mahindra & Mahindra (M&M) could also benefit from a shift to UVs.

We continue to prefer PVs to 2Ws—Maruti remains our top sector pick

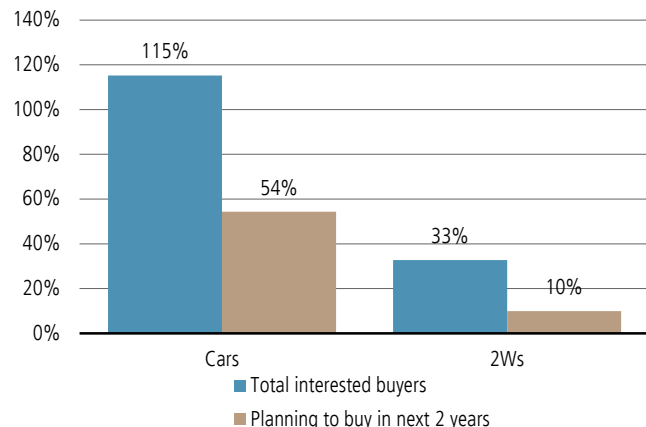
We believe Maruti is best placed to capture pent-up demand driven by a strong new model cycle. With its high petrol car exposure, we think Maruti will continue to benefit from a shift in demand and a recovery in the entry-level segment.

Figure 1: Postponers



Source: UBS Evidence Lab

Figure 2: Interested buyers (as a % of current owners)



Interested buyers include postponers. Source: UBS Evidence Lab

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UBS Evidence Lab: pent-up demand for PVs not 2Ws

UBS Evidence Lab surveyed 1,700 people in 13 cities to gauge near- and medium-term auto demand and to determine if there is significant pent-up demand in the system. The survey also looked at shifts in preferred category and brand to help us gauge the competitive landscape.

UBS Evidence lab findings and our conclusions

Our survey indicates that a significant proportion of interested buyers for two wheelers (47%) and cars (44%) have delayed their purchases. Also, the proportion of postponement is much higher in Tier II & III cities, especially for cars (74%). Factors driving the delays are similar for both categories—high inflation, low salary growth, and "saving up to buy".

Overall, we think the growth outlook for cars is much stronger than it is for two wheelers. On a blended basis, our survey indicates 115% interested buyers (as a percentage of current owners) for cars and only 33% for two wheelers.

Of the interested buyers, only 30% of potential two-wheeler buyers intend to buy within the next 24 months while 47% of interested car buyers intend to buy within the next 24 months, which is again more supportive of car demand than of two wheelers.

Overall, we expect much stronger demand growth in Tier I cities, relatively muted demand in Tier II & III cities. We therefore see categories with higher exposure to Tier I cities such as cars (accounting for almost 40% of demand) and premium motorcycles doing much better than other segments.

We therefore expect upside risk to our FY16 year-on-year car industry growth estimate of 19%. We lower our year-on-year two-wheeler industry growth estimate for FY16 from 16% to 15%. We continue to see downside risk to two-wheeler demand, given the larger proportion of demand in Tier II & III cities, where demand momentum appears to be subdued.

We expect consumer upgrades to continue in Tier I cities, with a shift from entry-level cars in passenger vehicles towards premium hatchbacks and UVs and a skew towards 125cc and premium motorcycles in two wheelers.

Investment implications

Passenger vehicles

Maruti Suzuki (Buy): Our survey indicates strong demand for cars, especially in Tier I cities. We therefore see upside risk to our industry growth forecast. While our survey suggests lower market share for Maruti among interested buyers, we believe this is a result of buyers being unaware of Maruti's upcoming pipeline in the UV and premium sedan segments. We therefore believe Maruti will be in a strong position to improve its market share and we maintain our view that it is well placed to benefit from strong growth in the car industry over the next two years. Maruti remains our top pick in the auto sector.

Mahindra & Mahindra (Buy): Our survey indicates an increase in Mahindra & Mahindra's (M&M) market share among interested buyers vis-à-vis current owners. We believe this reflects a shift in demand towards UV products as well as a significantly enhanced perception of the M&M brand following the success of XUV500. We therefore continue to expect strong growth in UVs for M&M with two new SUV launches expected in 2015.

Two wheelers

Eicher Motors (Buy): We maintain our Buy rating, based on strong growth potential for Royal Enfield (RE) motorcycles. The UBS Evidence Lab survey corroborates our view that demand is shifting towards premium motorcycles and RE has gained meaningful market share in both Tier I and Tier II & III cities. We expect strong growth to drive further EBITDA margin expansion in the RE business. Eicher Motors remains our preferred pick in the two-wheeler segment.

Hero MotoCorp (upgrade from Sell to Neutral): Our survey indicates Hero is likely to maintain its market share in Tier II & III cities, while Honda is gaining significant market share in Tier II & III cities primarily at the expense of Bajaj. Also there is no evidence of a sharp shift away from the 100cc motorcycle category in Tier II & III cities. We are therefore now more confident about Hero continuing to maintain its motorcycle market share and raise our volume growth forecasts for FY16/FY17, despite lowering our industry growth forecast slightly. We upgrade the stock from Sell to Neutral.

Bajaj Auto (Neutral): Our survey suggests Bajaj's domestic franchise continues to erode rapidly, especially in Tier II & III cities where 100cc motorcycles dominate. However, contribution of this business to overall EBITDA is low, and we believe the weak domestic motorcycle business outlook is known to investors. We therefore maintain our Neutral rating on the stock, given the strong outlook for the export business and domestic three-wheeler sales.

Figure 3: Indian auto OEM valuations

Company	Rating	Price target (LC)	Price (LC)	M cap US\$ m	PE (x)			EV/EBITDA (x)		
			7-Oct-14		FY15E	FY16E	FY17E	FY15E	FY16E	FY17E
Bajaj Auto	Neutral	2,300	2,330	11,003	18.3	15.7	14.3	12.7	10.5	9.5
Hero MotoCorp	Neutral	3,100	2,812	9,162	19.8	15.5	13.2	13.2	10.0	8.3
Maruti Suzuki	Buy	3,500	2,939	14,485	22.9	15.5	13.3	11.8	8.3	6.6
Mahindra & M	Buy	1,450	1,359	13,092	16.2	12.8	10.4	10.2	8.3	6.8
Tata Motors	Buy	550	505	26,517	9.3	8.2	7.5	4.4	4.0	3.6
Ashok Leyland	Sell	25.0	42.6	1,849	(74.6)	35.3	20.7	22.5	10.7	8.4
Eicher Motors	Buy	14,200	11,707	5,146	42.0	25.3	16.6	25.0	14.4	9.3

Source: Reuters, UBS estimates

METHODOLOGY AND CAVEATS

The survey was conducted via a CAPI (computer-assisted personal face-to-face interviewing) methodology across key cities in India (Delhi, Mumbai, Kolkata, Chennai, Bangalore, Hyderabad, Lucknow, Ludhiana, Burdwan, Rohtak, Palghar, Mandya & Chengalpatt) in August and September of 2014. In total 1,700 (N=1700) respondents qualified to take the survey. The sample is representative of the higher, middle and lower middle classes across these key cities based on age (ages 25-65), gender (both females and males were included), SEC code (A,B,C), as well as decision making ability in the household (household or financial decision makers).

SEC classification is a measure of socio-economic classification. The calculation is based on several parameters (education and occupation) of the chief wage earner of the household. The classification is A1, A2, B1, B2, C, D, E. Included in the survey are A, B and Cs only, which roughly relates A as 'higher class', B as 'middle class' and C as 'lower middle class'.

The margin of error for whole sample responses is approximately +/-2.38.

Caveats

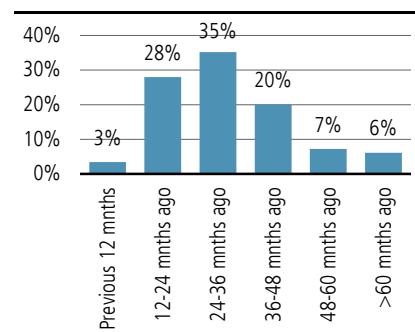
The data is based on higher, middle and lower middle class consumers (based on the education level and occupation of the chief wage earner of the household). The data excludes respondents of the other social classes and those who are not household or financial decision makers of the household.

Low pent-up demand for 2Ws

Two-wheeler penetration seems relatively high across socioeconomic groups and city classifications. Given the high penetration of two wheelers, we expect growth in urban areas largely from replacement demand and purchases of additional vehicles by the same household.

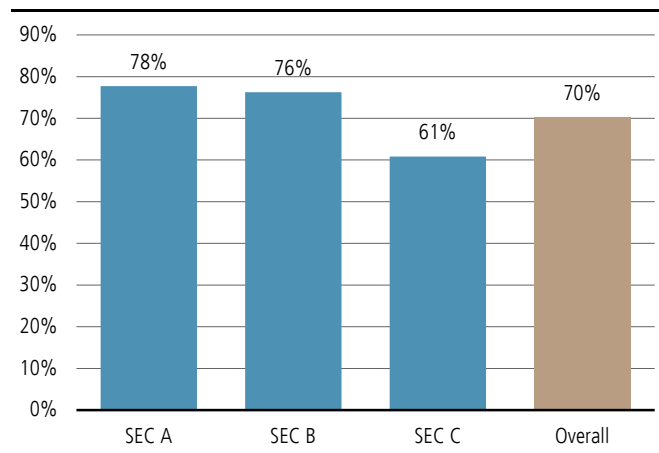
Also, two-thirds of current owners have bought a two wheeler in the past three years. We therefore see limited replacement demand from existing owners, as discussed later in this report.

Figure 4: Time since last purchase of a two wheeler



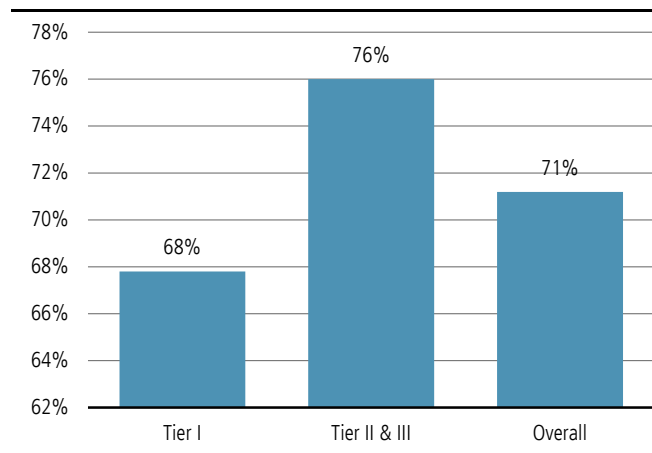
Source: UBS Evidence Lab

Figure 5: Two-wheeler ownership by SEC classification



Source: UBS Evidence Lab

Figure 6: Two-wheeler ownership by city classification



Source: UBS Evidence Lab

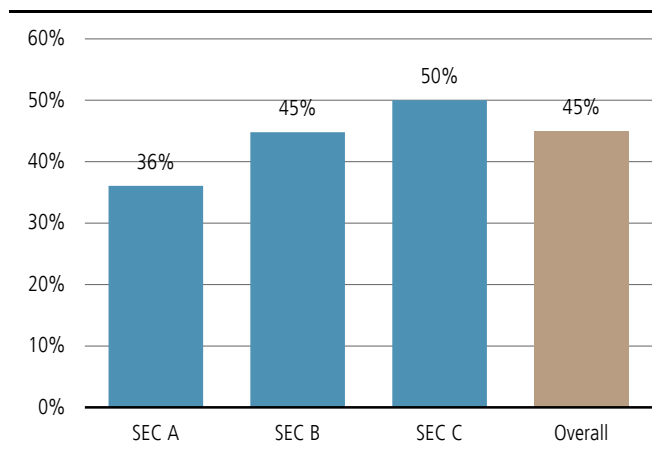
Who has postponed purchases

A higher percentage of people in the Socio Economic Class (SEC) C category have postponed their purchases although there does not seem to be a major difference in terms of postponement across SEC classes.

In Tier I cities 45% of interested buyers said they have postponed their purchases, while 55% of interested buyers in Tier II & III cities said they have delayed their purchases.

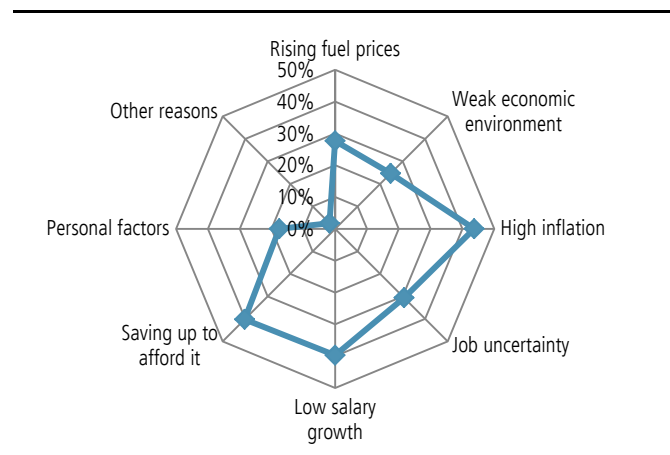
The main reasons for interested buyers delaying their purchases were: high inflation; low salary growth; and 'saving up to buy'.

Figure 7: Postponement by SEC category



Source: UBS Evidence Lab

Figure 8: Overall reasons for postponement



Source: UBS Evidence Lab

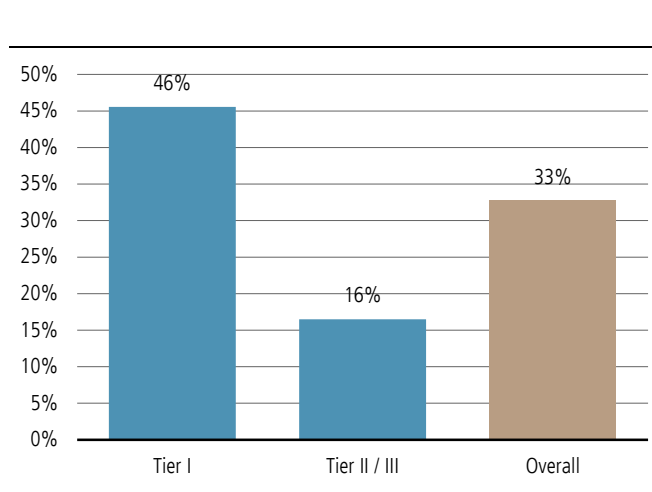
Quantifying pent-up demand

While the percentage of postponement is higher in Tier II & III cities, the total number of interested buyers (including people who have postponed their purchase), as a percentage of existing owners, is much lower in Tier II & III cities than in Tier I cities.

Also, only 30% of interested buyers intend to buy a two wheeler in the next two years. This works out to only 10% (= 33% X (11%+19%)) of buyers, as a proportion of the current two-wheeler owner population, in our sample set.

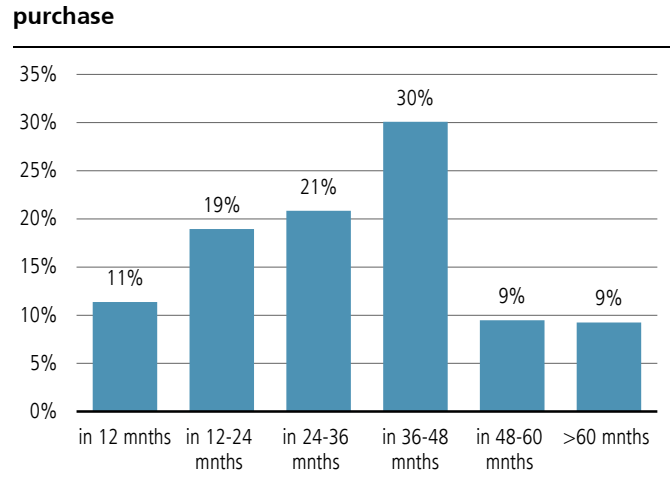
Growth has been robust in the past few years with around 67% of current owners having bought their two-wheeler in the past three years. This further corroborates the limited need for current owners to replace existing vehicles.

Figure 9: 2W interested buyers (as a % of 2W owners)



Source: UBS Evidence Lab

Figure 10: Interested buyers—indicated timing of purchase



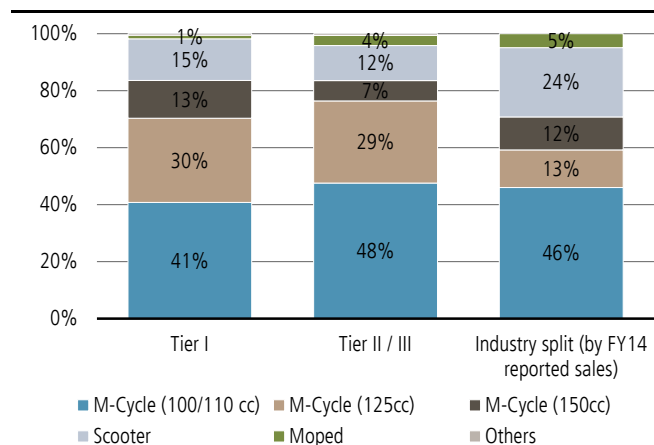
Source: UBS Evidence Lab

What do they want to buy

Our survey shows a shift towards 125cc and premium bikes (150cc and above) in Tier I cities. In Tier II & III cities, we do not see any decline in the share of 100cc motorcycles in overall demand.

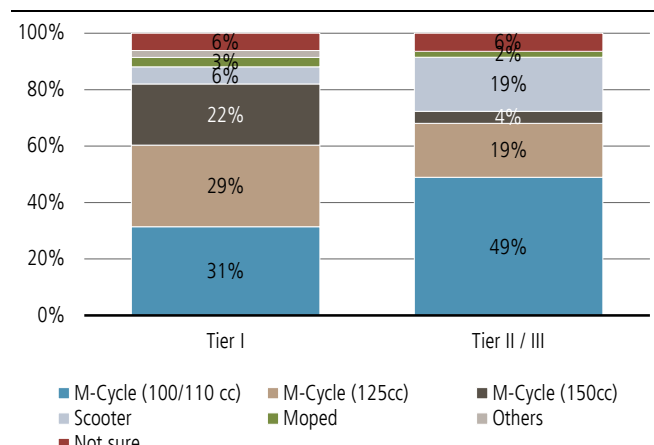
We expect 125cc and premium motorcycles to be the key beneficiaries of growing demand, as the two-wheeler segment is a deeper-penetrated category and a large proportion of demand is likely to be replacement demand. We therefore expect a higher propensity for buyers to upgrade to newer products—more power, style, etc. We therefore believe 100cc motorcycle growth is likely to lag two-wheeler industry growth.

Figure 11: Split of owned two wheeler by category



Source: UBS Evidence Lab, Society of Indian Automobile Manufacturers (SIAM)

Figure 12: Split by intended purchase category

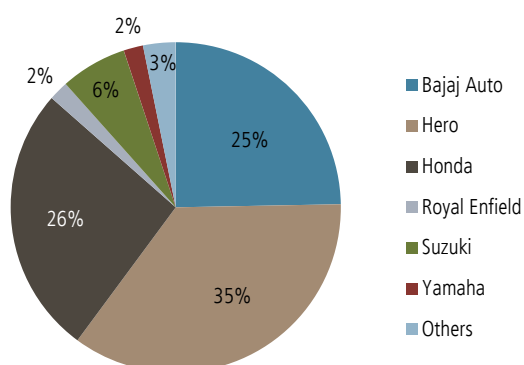


Source: UBS Evidence Lab

Brand preference

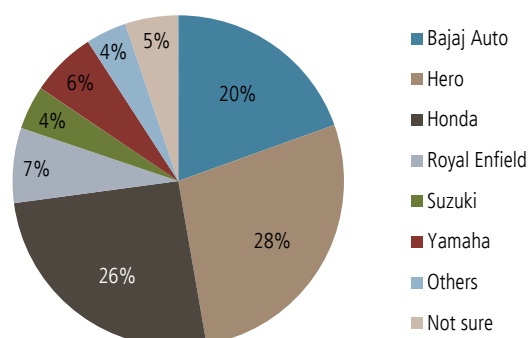
The UBS Evidence Lab survey indicates that while Hero's market share might erode in Tier I cities, its market share in Tier II & III cities should be largely unaffected. We attribute the decline in Hero's market share in Tier I cities to the shift towards 125cc and above motorcycles.

Figure 13: Two-wheeler ownership by brand (Tier I cities)



Note: Tier I cities covered in the survey are Bangalore, Chennai, Delhi, Hyderabad, Kolkata and Mumbai. Source: UBS Evidence Lab

Figure 14: Preferred brand for next 2W purchase (Tier I cities)

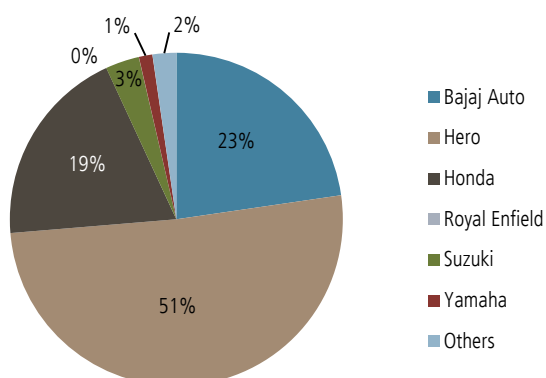


Source: UBS Evidence Lab

While Bajaj has lost share in Tier I and Tier II & III cities, the decline is much steeper in the latter. Honda has a much higher share of two wheelers in Tier II & III cities while the outlook for its market share in Tier I is relatively flat. Honda has made significant inroads into Tier II & III cities as reflected in the higher share among interested buyers. We believe this also reflects Honda's expanding distribution network.

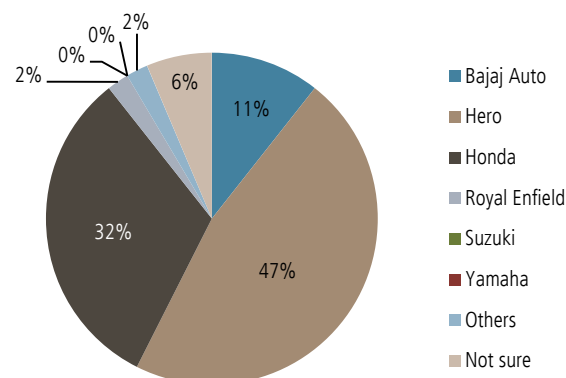
Royal Enfield has gained meaningful share in both Tier I (up from 2% to 7%) and Tier II & III cities (up from 0% to 2%) indicating a strong shift in customer demand for the company's products. This corroborates our expectation of the increasing share of Royal Enfield in the premium motorcycle segment.

Figure 15: Two-wheeler ownership by brand (Tier II & III cities)



Note: Tier II & III cities covered in the survey are Burdwan, Chengalpattu, Lucknow, Ludhiana, Mandya, Palghar and Rohtak. Source: UBS Evidence Lab

Figure 16: Preferred brand for next two-wheeler purchase (Tier II & III cities)



Source: UBS Evidence Lab

Implications for our sector growth forecasts

Our survey indicates that, as a percentage of the existing base, only 10% (= 33% X (11%+19%)) intend to buy a new two wheeler in the next two years.

Also, while our survey is more skewed towards Tier I cities, Tier II & III cities constitute a significantly higher proportion of urban demand for two wheelers (as reflected in higher ownership data indicated earlier). Therefore, weaker demand growth in Tier II & III cities is likely to depress overall two-wheeler industry volume growth.

We therefore believe a sharp increase in two-wheeler demand in FY16 due to urban pent-up demand is unlikely. We lower our industry volume growth estimate for FY16 from 16% to 15% as we reduce our year-on-year motorcycle growth forecast for FY16 from 13% to 12%.

Figure 17: Trend in domestic two-wheeler demand

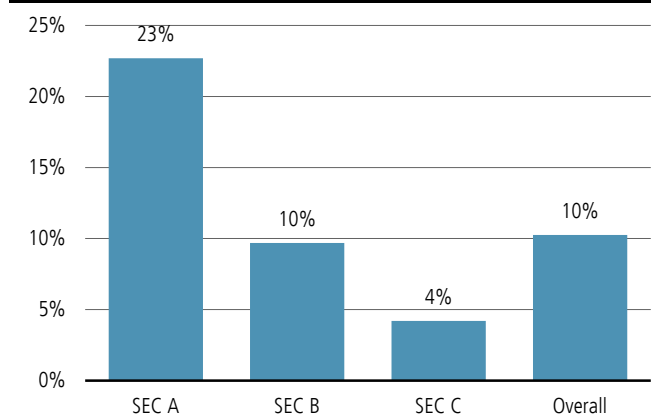
	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15E	FY16E	FY17E
2W - domestic	7,249,594	7,441,356	9,371,242	11,774,091	13,435,769	13,797,748	14,805,481	16,538,491	18,958,117	21,526,099
YoY growth	-8%	3%	26%	26%	14%	3%	7%	12%	15%	14%
Motorcycles	5,768,341	5,832,408	7,341,110	9,019,069	10,096,062	10,085,586	10,479,817	11,281,166	12,644,822	14,114,037
YoY growth	-12%	1%	26%	23%	12%	0%	4%	8%	12%	12%
Mopeds	431,144	456,727	567,585	697,418	776,866	788,761	722,920	759,066	797,019	836,870
YoY growth	20%	6%	24%	23%	11%	2%	-8%	5%	5%	5%
Scooters	1,050,109	1,152,221	1,462,547	2,057,604	2,562,841	2,923,401	3,602,744	4,498,259	5,516,276	6,575,192
YoY growth	11%	10%	27%	41%	25%	14%	23%	25%	23%	19%

Source: SIAM, UBS estimates

Strong pent-up demand for PVs

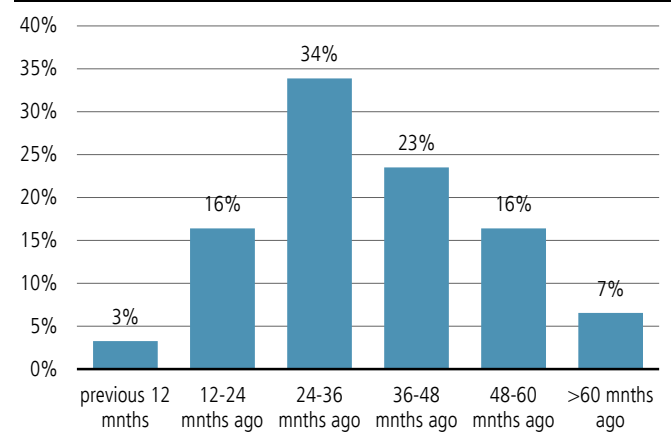
Unsurprisingly, car ownership is much lower across all socioeconomic categories and there is not much difference in ownership even between Tier I city (9% of respondents) and Tier II & III cities (11% of respondents). As a corollary, improving economic growth prospects and income growth should logically lead to much stronger demand for cars.

Figure 18: Car ownership by SEC classification



Source: UBS Evidence Lab

Figure 19: Purchase of latest car by current owners



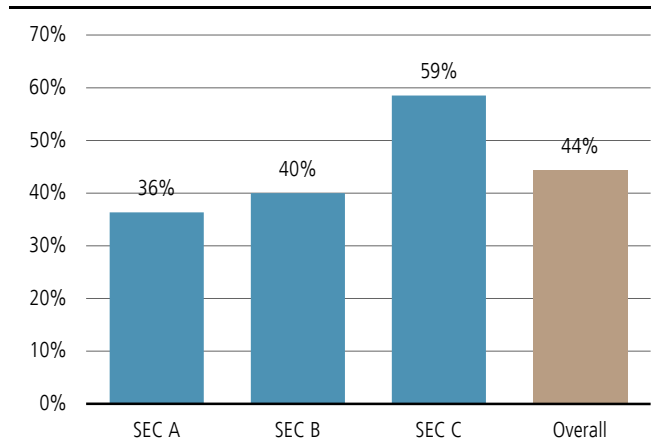
Source: UBS Evidence Lab

Who has postponed purchases

A higher percentage of respondents in the Socio Economic Class (SEC) C category have postponed their car purchase; however, given the low affordability for cars in this category this is neither a surprise nor a big positive.

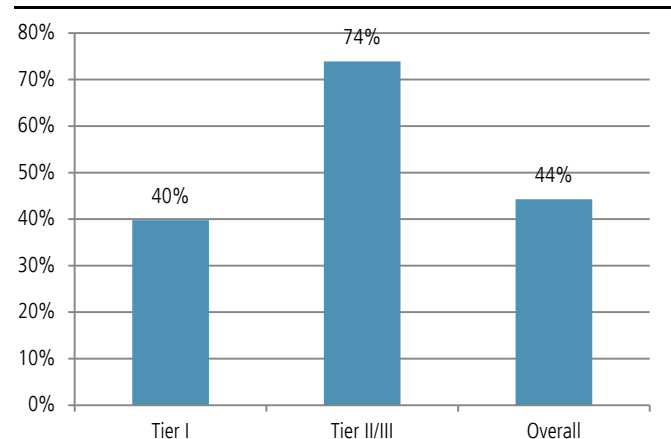
Also, the percentage of interested car buyers in Tier II & III cities who have postponed their car purchase was significantly higher than those in Tier I cities. The main reasons for the delay were broadly similar to respondents who were interested in buying two wheelers; that is, high inflation, low salary growth and 'saving up to buy'.

Figure 20: Car—postponement by SEC category



Source: UBS Evidence Lab

Figure 21: Car—postponement by city tier



Source: UBS Evidence Lab

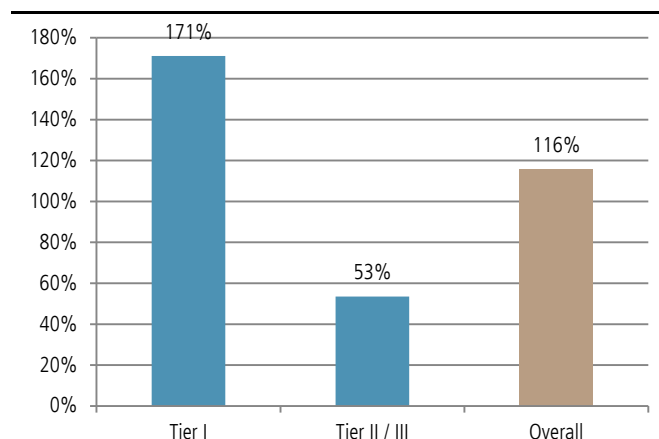
Quantifying pent-up demand is there

While postponement is higher among potential buyers in Tier II & III cities, the overall demand (measured as potential buyers as a percentage of current owners) is much lower for Tier II & III cities than for Tier I cities.

Almost 50% of interested buyers intend to buy a car in the next two years. This works out to 55% (= 116% X (14%+33%)) of buyers, as a proportion of current car owners, in our sample set.

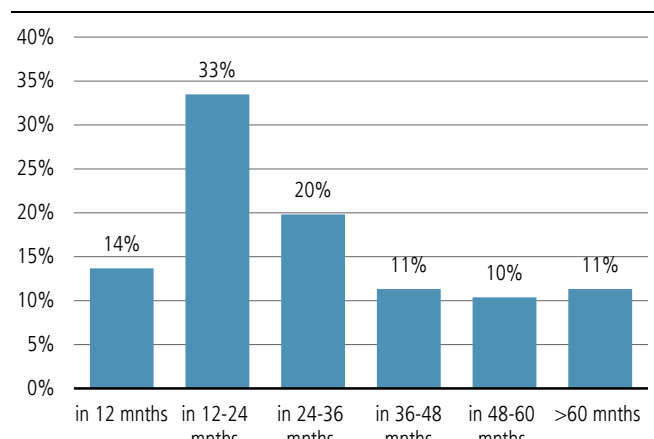
This indicates strong demand growth for passenger vehicles for the next two years.

Figure 22: Interested buyers (as a % of existing owners)



Source: UBS Evidence Lab

Figure 23: Distribution of people intending to buy



Source: UBS Evidence Lab

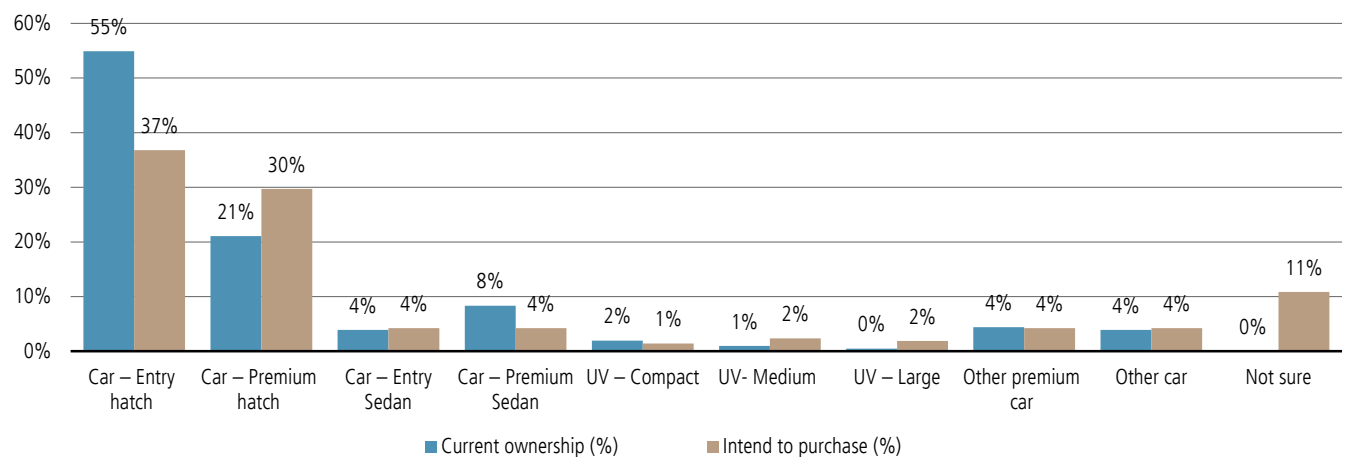
Future demand trends

By car category—a shift away from entry-level hatchbacks

Our survey indicates a move away from entry-level cars (Alto, Wagon R) to premium hatchbacks (Swift, Grand i10, i20) and UVs. However, indications are that hatchbacks will continue to dominate the urban landscape. This is partly in line with our expectation of strong growth for UVs due to new launches and consumers upgrading to the compact SUV segment. We also expected a strong rebound in entry-level cars from a low base due to an economic recovery (see [India Passenger Vehicles: Poised for a strong recovery](#), dated 19 June 2014).

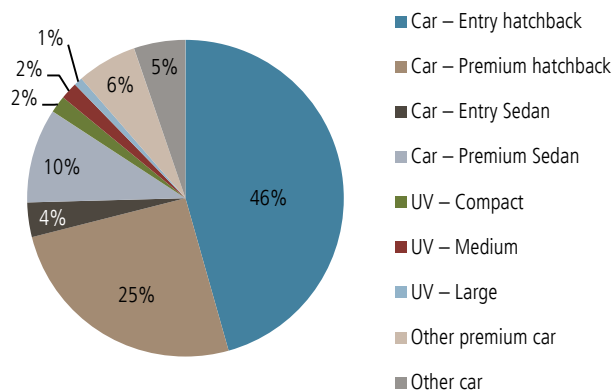
However, we think this is because there is little customer awareness of compact SUVs given the limited number of models (the Ford Ecosport and the M&M Quanto). However, we expect this segment to expand significantly with Maruti, M&M, and Hyundai's upcoming launches in FY16 and FY17.

Figure 24: Overall split of owned automobiles and intended purchase (by category)



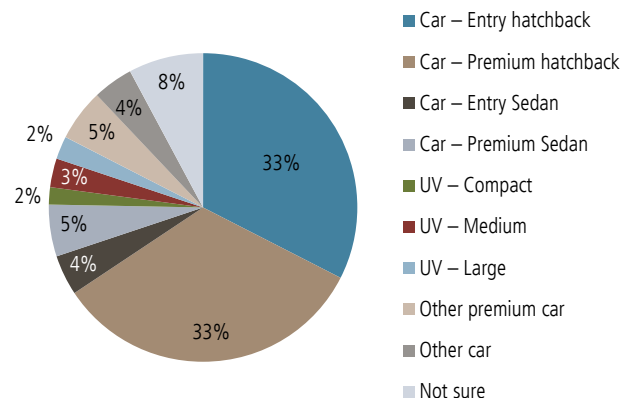
Source: UBS Evidence Lab

Figure 25: Split by owned automobiles (Tier I cities)



Source: UBS Evidence Lab

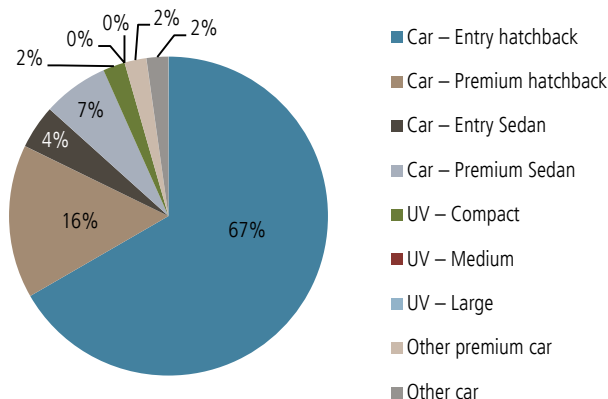
Figure 26: Split by intended purchase category (Tier I cities)



Source: UBS Evidence Lab

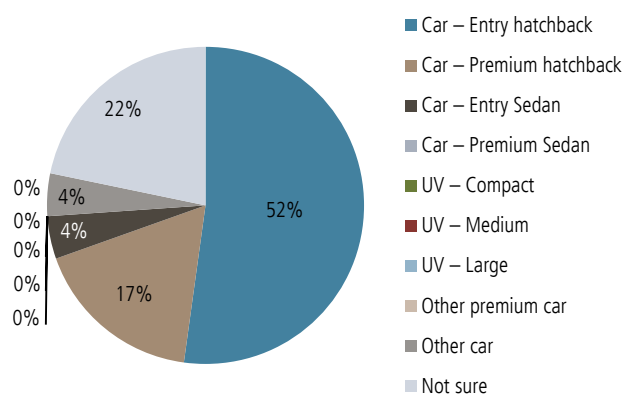
Of the interested buyers in Tier II & III cities, a significant 22% are not sure of the model they would like to buy.

Figure 27: Split by owned automobiles (Tier II and III cities)



Source: UBS Evidence Lab

Figure 28: Split by intended purchase category (Tier II and III cities)



Source: UBS Evidence Lab

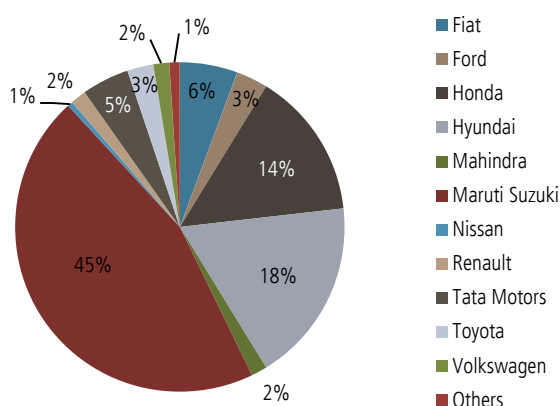
By brand—a challenge for Maruti

While companies such as Hyundai, Renault and M&M gain market share among interested buyers from current owners in the UBS Evidence Lab survey, Maruti's share falls sharply. We find the extent of the decline surprising although part of the shift is explained by a sharp drop in share of entry-level cars among potential buyers.

However, we remain confident that Maruti will be able to improve its urban market share as we think buyers might be unaware of Maruti's upcoming launches in premium sedan (Ciaz), compact SUV (iV4 concept) and SUV/Crossover (S-Cross) segment over the next 12 months. We believe the successful launch of these products will play a critical role in allowing Maruti to maintain and improve its overall market share.

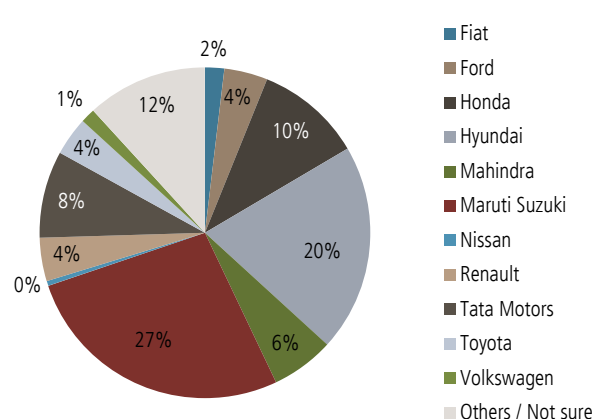
The challenge for Maruti is to remain aspirational and defend market share

Figure 29: Automobile ownership by brand



Source: UBS Evidence Lab

Figure 30: Preferred brand for automobile purchase



Source: UBS Evidence Lab

However, despite being the dominant car manufacturer in the country, we do think Maruti will have to work towards maintaining its aspirational image. The case in point is Hyundai's ability to maintain market share despite having low exposure to the UV segment. We think Maruti will have to constantly upgrade its products and add features to keep buyers interested in its products.

Also, we believe buying a car is a complex process with service networks, maintenance costs, fuel efficiency, etc, being relevant factors in the purchasing decision rather than it being an impulse buy. We believe these factors will also help Maruti maintain its dominant position.

M&M looks well placed to capture UV growth

M&M has the most significant increase in market share among interested buyers vis-à-vis current owners in the UBS Evidence Lab survey. While this reflects increasing consumer preference for UVs, it also reflects the impact of the successful launch of XUV500, which has significantly enhanced perceptions of the company's brand by capturing a large chunk of the premium SUV market.

Implications for sector growth

The UBS Evidence Lab survey indicates a strong demand outlook in Tier I cities. The Top-10 cities in India accounted for almost 40% of demand for passenger vehicles in FY14. As a result, strong pent-up demand in Tier I cities is likely to have a significant bearing on overall car demand.

We believe this implies sharp growth in passenger vehicles in the next two years and therefore a risk to our passenger vehicle demand forecasts for FY16 and FY17.

Figure 31: India passenger vehicle demand trend

	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15E	FY16E	FY17E
Domestic PV	1,547,159	1,552,543	1,950,015	2,501,542	2,618,072	2,686,429	2,502,912	2,824,763	3,362,886	3,855,618
YoY growth	12%	0%	26%	28%	5%	3%	-7%	13%	19%	15%
Cars	1,201,839	1,220,344	1,527,020	1,972,845	2,016,115	1,895,471	1,786,987	2,071,082	2,387,162	2,696,011
YoY growth	12%	2%	25%	29%	2%	-6%	-6%	16%	15%	13%
UVs only	244,581	225,592	272,739	315,123	367,012	553,660	525,081	555,119	729,754	854,435
YoY growth	11%	-8%	21%	16%	16%	51%	-5%	6%	31%	17%
Vans	100,739	106,607	150,256	213,574	234,945	237,298	190,844	198,562	245,971	305,172
YoY growth	21%	6%	41%	42%	10%	1%	-20%	4%	24%	24%

Source: SIAM, UBS estimates

Hero MotoCorp

Upgrade on improving market share outlook

UBS Evidence Lab shows Hero maintaining market share in Tier II & III cities

Based on the UBS Evidence Lab survey, we believe Hero MotoCorp (Hero) should be able to maintain its market share among interested 2W buyers in Tier II & III cities, while Honda gains significant market share almost entirely at the expense of Bajaj Auto. Also there is no shift away in preference from 100cc motorcycles in Tier II & III cities. We are therefore now more confident about Hero continuing to maintain its motorcycle market share and hence raise our volume growth forecast for FY16/FY17 despite a mild cut to our industry growth forecast. We upgrade the stock from Sell to Neutral.

Competitive landscape improves as Bajaj's franchise erodes rapidly

Our Sell rating on Hero was premised on increasing competition and margin pressure as we expected Bajaj to aggressively respond to the erosion of its motorcycle market share while Honda would continue to gain share. However, Bajaj's response has been muted while Honda's 100cc launches have failed to sustain their initial momentum. We believe marginalisation of Bajaj will provide Honda enough room to grow over the medium term without dampening Hero's growth. We now expect Hero's growth to be closer to industry growth.

Improved growth raises prospects for margin enhancement

We raise our domestic motorcycle growth forecasts for FY15/FY16 from 7%/8% to 10%/10%. We raise our FY16/FY17 EBITDA margin forecasts from 14.4%/14.5% to 15.4%/15.8%. We raise our FY16/FY17 EPS estimates 9%/10%. Our FY16 EPS estimate is 6% above consensus.

Valuation: upgrade from Sell to Neutral; raise PT from Rs2,600 to Rs3,100

We derive our price target from a DCF-based methodology and explicitly forecast long-term valuation drivers using UBS's VCAM tool. We assume a WACC of 11.5%. Our 12-month price target implies 17x FY16E PE.

Equities

India
Automobile Manufacturers

12-month rating **Neutral**
Prior: Sell

12m price target **Rs3,100.00**
Prior: Rs2,600.00

Price **Rs2,811.75**

RIC: HROM.BO **BBG:** HMCL IB

Trading data and key metrics

52-wk range Rs2,999.80-1,918.35

Market cap. Rs561bn/US\$9.12bn

Shares o/s 200m (ORD)

Free float 60%

Avg. daily volume ('000) 399

Avg. daily value (m) Rs1,054.2

Common s/h equity (03/15E) Rs67.8bn

P/BV (03/15E) 8.3x

Net debt / EBITDA (03/15E) NM

EPS (UBS, diluted) (Rs)

	From	To	% ch	Cons.
03/15E	141.31	142.08	0.54	141.06
03/16E	166.71	181.30	8.75	170.40
03/17E	192.93	212.50	10.14	197.22

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Highlights (Rsm)	03/12	03/13	03/14	03/15E	03/16E	03/17E	03/18E	03/19E
Revenues	233,681	235,827	251,249	282,385	326,402	370,348	407,438	449,415
EBIT (UBS)	25,214	21,427	24,327	33,809	46,004	53,734	59,495	63,384
Net earnings (UBS)	23,781	21,182	21,091	28,374	36,205	42,437	46,603	49,473
EPS (UBS, diluted) (Rs)	119.09	106.07	105.61	142.08	181.30	212.50	233.37	247.74
DPS (Rs)	45.00	60.00	65.05	71.04	90.65	106.25	116.68	123.87
Net (debt) / cash	603	1,601	931	9,016	24,146	45,274	66,904	89,431
Profitability/valuation	03/12	03/13	03/14	03/15E	03/16E	03/17E	03/18E	03/19E
EBIT margin %	10.8	9.1	9.7	12.0	14.1	14.5	14.6	14.1
ROIC (EBIT) %	265.4	103.9	126.5	193.8	258.2	335.7	454.0	>500
EV/EBITDA (core) x	9.5	10.3	9.5	13.2	10.0	8.3	7.2	6.5
P/E (UBS, diluted) x	16.1	17.8	18.0	19.8	15.5	13.2	12.0	11.3
Equity FCF (UBS) yield %	13.3	9.7	4.4	3.5	4.4	6.5	7.5	8.2
Net dividend yield %	2.3	3.2	3.4	2.5	3.2	3.8	4.1	4.4

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of Rs2,811.75 on 07 Oct 2014 22:47 HKT

Investment Thesis

Hero MotoCorp

Investment case

We believe competition is subsiding in the domestic two-wheeler market and the market is moving back to an oligopoly, dominated by Hero and Honda, as Bajaj's marginalisation continues. We expect Hero's growth to be in line with the domestic two-wheeler industry. Hence we expect Hero's EBITDA margin to improve over the medium term. However, low exposure to the faster-growing scooter segment remains an issue.

Upside scenario

In our upside scenario, we expect 12% YoY domestic motorcycle volume growth in FY16 versus our base case of 10%. We expect the EBITDA margin to improve to 16.1%, compared with our base case of 15.4%, and expect FY16 EPS of Rs192.27. The valuation in this scenario would be Rs3,461/share, implying 18x FY16E PE.

Downside scenario

In our downside scenario, we expect the FY16 EBITDA margin to remain close to the FY14 level of 14%. The FY16 EPS in this scenario would be Rs165.19 and valuation Rs2,485/share, implying 15x FY16E PE.

Upcoming catalysts

Monthly volumes and domestic market share. Quarterly results.

12-month rating

Neutral

12m price target

Rs3,100.00

Business description

Hero MotoCorp is the largest Indian two-wheeler manufacturer. The company was a joint venture between Honda (Japan) and Hero Group of India (owned by the Munjal family) until March 2011, when the Munjal family bought Honda's stake in the venture. The company is now looking to expand overseas.

Industry outlook

We remain positive on the domestic two-wheeler industry growth outlook, expecting 12% YoY growth in FY15 and 15% in FY16. However, we expect industry growth to be driven by faster growth in the scooter segment. We expect Honda to continue to grow significantly above the industry, driven by its strong position in the scooter segment.

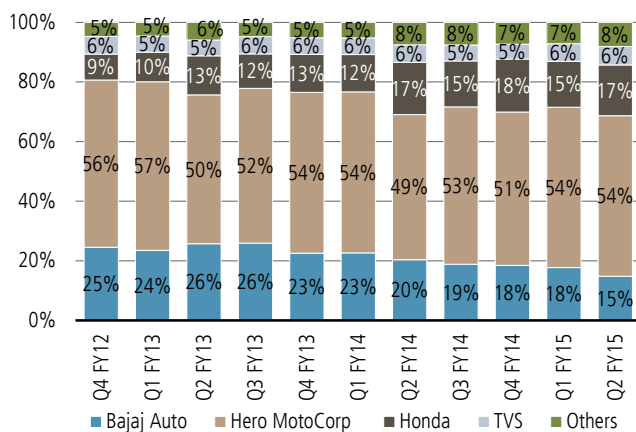
Revenue by region (%)

Hero derived 98% of FY14 revenue from domestic 2W sales.

EBIT by product segment

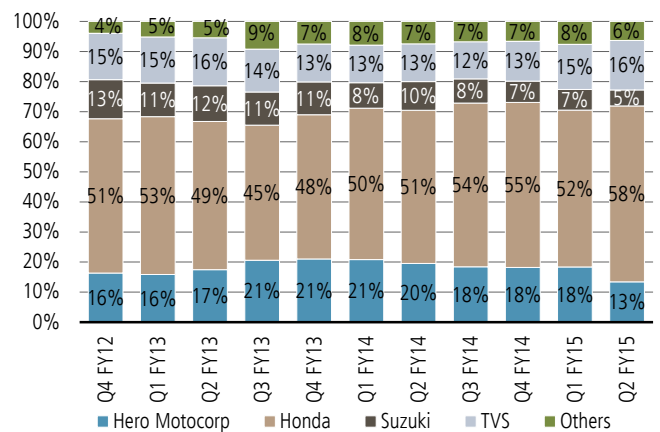
The company operates in only the two-wheeler segment.

Figure 32: Hero's motorcycle market share has stabilised...



Note: Q2 FY15 data is for two months.
Source: SIAM

Figure 33: ...however, the scooter share is under pressure



Note: Q2 FY15 data is for two months.
Source: SIAM

Figure 34: Hero MotoCorp volume trend

	FY09	FY10	FY11	FY12	FY13	FY14	FY15E	FY16E	FY17E
Mcyd - domestic	3,487,614	4,293,991	4,926,390	5,651,056	5,362,730	5,425,118	5,967,630	6,564,393	7,089,544
YoY growth	11%	23%	15%	15%	-5%	1%	10%	10%	8%
Mcyd - exports	78,176	91,867	114,581	128,555	136,515	113,173	147,125	235,400	376,640
YoY growth	-11%	18%	25%	12%	6%	-17%	30%	60%	60%
Total motorcycle	3,568,004	4,385,858	5,040,971	5,779,611	5,499,245	5,538,291	6,114,755	6,799,793	7,466,184
YoY growth	10.4%	22.9%	14.9%	14.7%	-4.9%	0.7%	10.4%	11.2%	9.8%
Scooters - domestic	153,193	208,440	342,991	418,224	549,808	690,079	759,087	910,904	1,093,085
YoY growth	50%	36%	65%	22%	31%	26%	10%	20%	20%
Scooters - exports	3,017	5,832	18,482	37,360	24,528	17,525	43,813	56,956	74,043
YoY growth	28%	93%	217%	102%	-34%	-29%	150%	30%	30%
Total scooters	153,996	214,272	361,473	455,584	574,336	707,604	802,899	967,861	1,167,128
YoY growth	47%	39%	69%	26%	26%	23%	13%	21%	21%
Total volumes	3,722,000	4,600,130	5,402,444	6,235,195	6,073,581	6,245,895	6,917,654	7,767,653	8,633,312
YoY growth	11.5%	23.6%	17.4%	15.4%	-2.6%	2.8%	10.8%	12.3%	11.1%

Source: SIAM, UBS estimates

Figure 35: Hero MotoCorp—cost structure trend

As %age of net sales	FY 09	FY 10	FY 11	FY 12	FY 13	FY14	FY 15E	FY 16E	FY 17E
Raw Material	71.0%	68.1%	73.3%	74.0%	73.8%	72.6%	72.7%	70.6%	70.2%
Other Variable expenses	7.8%	7.6%	6.8%	4.9%	5.6%	6.1%	6.1%	6.6%	6.6%
Fixed expenses	7.4%	7.4%	7.1%	6.6%	7.5%	7.9%	7.9%	7.9%	7.9%
EBITDA margin	14.2%	17.5%	13.6%	15.5%	13.9%	14.1%	13.8%	15.4%	15.8%

Source: UBS estimates

Valuation

We derive our price target from a DCF-based methodology and explicitly forecast long-term valuation drivers using UBS's VCAM tool. We assume a WACC of 11.5%. Our 12-month price target implies 17x FY16E PE.

Our FY16 EPS estimate is 6% above consensus estimate.

Figure 36: Hero MotoCorp price target derivation using UBS VCAM

Relative year	+1E	+2E	+3E	+4E	+5E	+6E	+7E	+8E	+9E	+10E
Fiscal year	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E
EBIT	33,809	46,004	53,734	59,495	63,384	76,850	86,456	95,966	105,083	113,490
D&A*	5,186	4,204	4,604	4,904	5,204	7,685	8,646	9,597	10,508	11,349
Capex	(10,000)	(10,000)	(6,000)	(6,000)	(6,000)	(12,808)	(14,409)	(15,994)	(17,514)	(18,915)
Chg. in wkg. cap.	1,562	1,809	1,806	1,524	1,725	1,906	2,167	2,145	2,057	1,896
Tax (operating)	(9,129)	(13,801)	(16,120)	(17,849)	(19,015)	(23,055)	(25,937)	(28,790)	(31,525)	(34,047)
Other	(623)	(880)	(879)	(742)	(840)	(1,258)	(1,281)	(1,268)	(1,216)	(1,121)
Free Cash Flow	20,806	27,336	37,146	41,334	44,459	49,319	55,642	61,656	67,394	72,652
growth		31.4%	35.9%	11.3%	7.6%	10.9%	12.8%	10.8%	9.3%	7.8%

Valuation	
PV of explicit cash flow	340,098
PV of terminal value (yr. 15)	187,596
Enterprise Value	527,694
% terminal	36%
Associates & other	40,888
- Minority interests	0
Surplus cash**	0
- Debt***	245
Equity value	568,337
Shares outstanding [m]	199.7
Equity per share (Rs/sh)	2,850
Cost of equity	11.5%
Dividend yield	2.8%
1-year Price Target (Rs/sh)	3,090

Long Term Assumptions			
Relative year	+10E	+15E	+25E
Sales growth	8.0%	5.0%	5.0%
EBIT margin	15.0%	14.0%	13.0%
Capex/sales	2.5%	2.5%	2.5%
ROIC	87.3%	53.1%	40.5%

Valuation-Implied Metrics			
Fiscal year	2015E	2016E	1-yr Fwd.
EV / EBITDA	13.5x	10.5x	11.8x
EV / EBIT	15.6x	11.5x	13.2x
FCF Yield	3.9%	5.2%	4.6%
P / E (PV)	20.0x	15.7x	17.6x
P / E (Target)	21.8x	17.1x	19.1x

WACC	
Risk free rate	8.60%
ERP	5.0%
Beta	0.58
Debt / equity***	0.0%
Marg. tax rate	30.0%
Cost of equity	11.5%
Cost of debt	13.2%
WACC	11.5%

Terminal Assumptions	
VCH (years)	15
Impl. FCF gr.	1.5%
Incr. ROIC	15.3%
EV / EBITDA	5.5x

Figures in Rs m, unless noted otherwise.

* Depreciation and non-goodwill amortization

** The portion of cash not required to maintain operations

*** Assumes market value of equity and includes market value/seasonal adjustments for debt and debt-deemed obligations.

Source: UBS VCAM

UBS Evidence Lab provides our research analysts with rigorous primary research. The team conducts representative surveys of key sector decision-makers, mines the internet, systematically collects observable data, and pulls information from other innovative sources. They apply a variety of advanced analytic techniques to derive insights from the data collected. This valuable resource supplies UBS analysts with differentiated information to support their forecasts and recommendations – in turn enhancing our ability to serve the needs of our clients.

Hero MotoCorp (HROM.BO)

	03/12	03/13	03/14	03/15E	% ch	03/16E	% ch	03/17E	03/18E	03/19E
Income statement (Rsm)										
Revenues	233,681	235,827	251,249	282,385	12.4	326,402	15.6	370,348	407,438	449,415
Gross profit	34,535	32,778	38,137	49,648	30.2	65,976	32.9	76,740	83,448	88,362
EBITDA (UBS)	36,188	32,845	35,401	38,996	10.2	50,209	28.8	58,339	64,400	68,589
Depreciation & amortisation	(10,973)	(11,417)	(11,074)	(5,186)	-53.2	(4,204)	-18.9	(4,604)	(4,904)	(5,204)
EBIT (UBS)	25,214	21,427	24,327	33,809	39.0	46,004	36.1	53,734	59,495	63,384
Associates & investment income	3,646	3,984	4,464	5,177	16.0	5,835	12.7	7,008	7,199	7,409
Other non-operating income	0	0	0	0	-	0	-	0	0	0
Net interest	(213)	(119)	(118)	(118)	0.0	(118)	0.0	(118)	(118)	(118)
Exceptionals (incl goodwill)	0	0	0	0	-	0	-	0	0	0
Profit before tax	28,647	25,292	28,673	38,868	35.6	51,721	33.1	60,624	66,576	70,675
Tax	(4,866)	(4,110)	(7,582)	(10,494)	-38.4	(15,516)	-47.9	(18,187)	(19,973)	(21,203)
Profit after tax	23,781	21,182	21,091	28,374	34.5	36,205	27.6	42,437	46,603	49,473
Preference dividends	0	0	0	0	-	0	-	0	0	0
Minorities	0	0	0	0	-	0	-	0	0	0
Extraordinary items	0	0	0	0	-	0	-	0	0	0
Net earnings (local GAAP)	23,781	21,182	21,091	28,374	34.5	36,205	27.6	42,437	46,603	49,473
Net earnings (UBS)	23,781	21,182	21,091	28,374	34.5	36,205	27.6	42,437	46,603	49,473
Tax rate (%)	17.0	16.3	26.4	27.0	2.1	30.0	11.1	30.0	30.0	30.0
Per share (Rs)										
EPS (UBS, diluted)	119.09	106.07	105.61	142.08	34.5	181.30	27.6	212.50	233.37	247.74
EPS (local GAAP, diluted)	119.09	106.07	105.61	142.08	34.5	181.30	27.6	212.50	233.37	247.74
EPS (UBS, basic)	119.09	106.07	105.61	142.08	34.5	181.30	27.6	212.50	233.37	247.74
Net DPS (Rs)	45.00	60.00	65.05	71.04	9.2	90.65	27.6	106.25	116.68	123.87
Cash EPS (UBS, diluted) ¹	174.03	163.24	161.06	168.05	4.3	202.35	20.4	235.56	257.93	273.80
Book value per share	300.67	296.91	294.66	339.38	15.2	414.62	22.2	502.80	599.65	702.46
Average shares (diluted)	199.70	199.70	199.70	199.70	0.0	199.70	0.0	199.70	199.70	199.70
Balance sheet (Rsm)										
Cash and equivalents	768	1,810	1,175	9,261	NM	24,391	163.4	45,519	67,148	89,675
Other current assets	20,235	27,037	27,937	29,359	5.1	32,792	11.7	36,249	39,282	42,667
Total current assets	21,003	28,848	29,112	38,620	32.7	57,183	48.1	81,768	106,431	132,342
Net tangible fixed assets	38,244	31,331	30,974	35,787	15.5	41,583	16.2	42,978	44,074	44,869
Net intangible fixed assets	0	0	0	0	-	0	-	0	0	0
Investments / other assets	39,643	36,238	40,888	40,888	0.0	40,888	0.0	40,888	40,888	40,888
Total assets	98,889	96,417	100,973	115,295	14.2	139,654	21.1	165,634	191,392	218,099
Trade payables & other ST liabilities	36,600	35,593	41,887	47,276	12.9	56,611	19.7	64,979	71,397	77,573
Short term debt	0	0	0	0	-	0	-	0	0	0
Total current liabilities	36,600	35,593	41,887	47,276	12.9	56,611	19.7	64,979	71,397	77,573
Long term debt	165	210	245	245	0.0	245	0.0	245	245	245
Other long term liabilities	2,083	1,324	0	0	-	0	-	0	0	0
Preferred shares	0	0	0	0	-	0	-	0	0	0
Total liabilities (incl pref shares)	38,848	37,127	42,132	47,521	12.8	56,855	19.6	65,224	71,642	77,818
Common s/h equity	60,041	59,290	58,841	67,774	15.2	82,799	22.2	100,410	119,751	140,282
Minority interests	0	0	0	0	-	0	-	0	0	0
Total liabilities & equity	98,889	96,417	100,973	115,295	14.2	139,654	21.1	165,634	191,392	218,099
Cash flow (Rsm)										
Net income (before pref divs)	23,781	21,182	21,091	28,374	34.5	36,205	27.6	42,437	46,603	49,473
Depreciation & amortisation	10,973	11,418	11,074	5,186	-53.2	4,204	-18.9	4,604	4,904	5,204
Net change in working capital	23,268	7,810	(5,395)	(3,967)	26.5	(5,901)	-48.7	(4,912)	(3,385)	(2,791)
Other operating	0	0	-	-	-	-	-	-	-	-
Operating cash flow	58,449	40,647	27,006	29,829	10.5	34,745	16.5	42,366	48,360	52,122
Tangible capital expenditure	(7,587)	(4,001)	(10,159)	(10,000)	1.6	(10,000)	0.0	(6,000)	(6,000)	(6,000)
Intangible capital expenditure	0	0	0	0	-	0	-	0	0	0
Net (acquisitions) / disposals	0	0	0	0	-	0	-	0	0	0
Other investing	11,645	3,404	(4,649)	0	-	0	-	0	0	0
Investing cash flow	4,058	(596)	(14,808)	(10,000)	32.5	(10,000)	0.0	(6,000)	(6,000)	(6,000)
Equity dividends paid	(10,444)	(14,017)	(15,199)	(16,599)	-9.2	(21,180)	-27.6	(24,826)	(27,263)	(28,942)
Share issues / (buybacks)	0	0	45	0	-	0	-	0	0	0
Other financing	0	0	0	0	-	0	-	0	0	0
Change in debt & pref shares	(4,721)	(8,629)	(7,674)	(2,843)	62.96	0	-	0	0	-
Financing cash flow	(15,164)	(22,647)	(22,829)	(19,441)	14.8	(21,180)	-8.9	(24,826)	(27,263)	-
Cash flow inc/(dec) in cash	52,063	26,033	(2,957)	3,231	-	3,565	10.4	11,540	15,097	17,181
FX / non cash items	-	-	-	-	-	-	-	-	-	-
Balance sheet inc/(dec) in cash	-	-	-	-	-	-	-	-	-	-

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.¹Cash EPS (UBS, diluted) is calculated using UBS net income adding back depreciation and amortization.

Hero MotoCorp (HROM.BO)

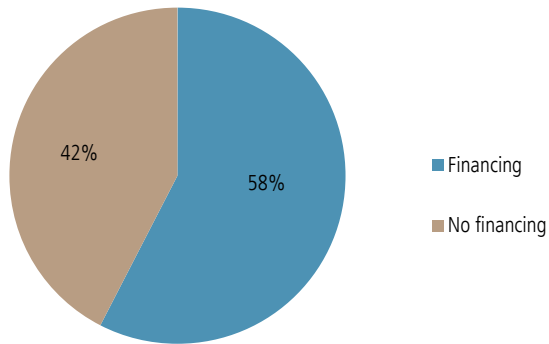
Valuation (x)	03/12	03/13	03/14	03/15E	03/16E	03/17E	03/18E	03/19E
P/E (local GAAP, diluted)	16.1	17.8	18.0	19.8	15.5	13.2	12.0	11.3
P/E (UBS, diluted)	16.1	17.8	18.0	19.8	15.5	13.2	12.0	11.3
P/CEPS	11.0	11.5	11.8	16.7	13.9	11.9	10.9	10.3
Equity FCF (UBS) yield %	13.3	9.7	4.4	3.5	4.4	6.5	7.5	8.2
Net dividend yield (%)	2.3	3.2	3.4	2.5	3.2	3.8	4.1	4.4
P/BV x	6.4	6.3	6.4	8.3	6.8	5.6	4.7	4.0
EV/revenues (core)	1.5	1.4	1.3	1.8	1.5	1.3	1.1	1.0
EV/EBITDA (core)	9.5	10.3	9.5	13.2	10.0	8.3	7.2	6.5
EV/EBIT (core)	13.6	15.8	13.9	15.3	11.0	9.0	7.8	7.0
EV/OpFCF (core)	13.6	15.8	13.9	15.3	11.0	9.0	7.8	7.0
EV/op. invested capital	NM	NM	NM	NM	NM	NM	NM	NM
Enterprise value (Rsm)	03/12	03/13	03/14	03/15E	03/16E	03/17E	03/18E	03/19E
Market cap.	383,771	376,362	379,355	561,478	561,478	561,478	561,478	561,478
Net debt (cash)	(596)	(1,102)	(1,266)	(4,973)	(16,581)	(34,710)	(56,089)	(78,167)
Buy out of minorities	0	0	0	0	0	0	0	0
Pension provisions/other	0	0	0	0	0	0	0	0
Total enterprise value	383,175	375,260	378,090	556,505	544,897	526,768	505,389	483,311
Non core assets	(39,643)	(36,238)	(40,888)	(40,888)	(40,888)	(40,888)	(40,888)	(40,888)
Core enterprise value	343,533	339,022	337,202	515,617	504,009	485,880	464,502	442,423
Growth (%)	03/12	03/13	03/14	03/15E	03/16E	03/17E	03/18E	03/19E
Revenue	21.4	0.9	6.5	12.4	15.6	13.5	10.0	10.3
EBITDA (UBS)	38.5	-9.2	7.8	10.2	28.8	16.2	10.4	6.5
EBIT (UBS)	14.1	-15.0	13.5	39.0	36.1	16.8	10.7	6.5
EPS (UBS, diluted)	18.4	-10.9	-0.4	34.5	27.6	17.2	9.8	6.2
Net DPS	-57.1	33.3	8.4	9.2	27.6	17.2	9.8	6.2
Margins & Profitability (%)	03/12	03/13	03/14	03/15E	03/16E	03/17E	03/18E	03/19E
Gross profit margin	14.8	13.9	15.2	17.6	20.2	20.7	20.5	19.7
EBITDA margin	15.5	13.9	14.1	13.8	15.4	15.8	15.8	15.3
EBIT margin	10.8	9.1	9.7	12.0	14.1	14.5	14.6	14.1
Net earnings (UBS) margin	10.2	9.0	8.4	10.0	11.1	11.5	11.4	11.0
ROIC (EBIT)	265.4	103.9	126.5	193.8	258.2	335.7	454.0	>500
ROIC post tax	NM	NM	NM	NM	NM	NM	NM	NM
ROE (UBS)	42.8	35.5	35.7	44.8	48.1	46.3	42.3	38.1
Capital structure & Coverage (x)	03/12	03/13	03/14	03/15E	03/16E	03/17E	03/18E	03/19E
Net debt / EBITDA	(.0)	(.0)	(.0)	(0.2)	(0.5)	(0.8)	(1.0)	(1.3)
Net debt / total equity %	(1.0)	(2.7)	(1.6)	(13.3)	(29.2)	(45.1)	(55.9)	(63.8)
Net debt / (net debt + total equity) %	(1.0)	(2.8)	(1.6)	(15.3)	(41.2)	(82.1)	NM	NM
Net debt/EV	(0.2)	(0.5)	(0.3)	(1.7)	(4.8)	(9.3)	(14.4)	(20.2)
Capex / depreciation %	69.1	35.0	91.7	192.8	NM	130.3	122.3	115.3
Capex / revenue %	3.2	1.7	4.0	3.5	3.1	1.6	1.5	1.3
EBIT / net interest	NM	NM	NM	NM	NM	NM	NM	NM
Dividend cover (UBS)	2.6	1.8	1.6	2.0	2.0	2.0	2.0	2.0
Div. payout ratio (UBS) %	37.8	56.6	61.6	50.0	50.0	50.0	50.0	50.0
Revenues by division (Rsm)	03/12	03/13	03/14	03/15E	03/16E	03/17E	03/18E	03/19E
Others	233,681	235,827	251,249	282,385	326,402	370,348	407,438	449,415
Total	233,681	235,827	251,249	282,385	326,402	370,348	407,438	449,415
EBIT (UBS) by division (Rsm)	03/12	03/13	03/14	03/15E	03/16E	03/17E	03/18E	03/19E
Others	25,214	21,427	24,327	33,809	46,004	53,734	59,495	63,384
Total	25,214	21,427	24,327	33,809	46,004	53,734	59,495	63,384

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.

Appendix

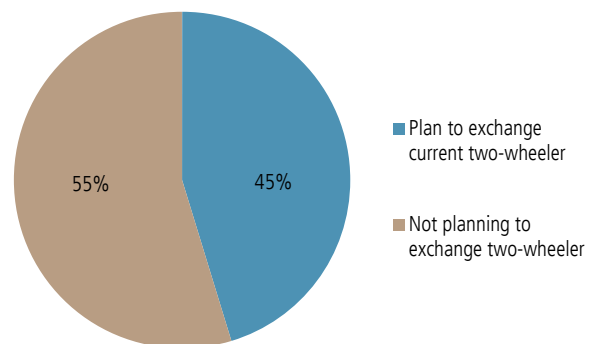
Two-wheeler survey

Figure 37: Two wheelers—intention to avail financing



Source: UBS Evidence Lab

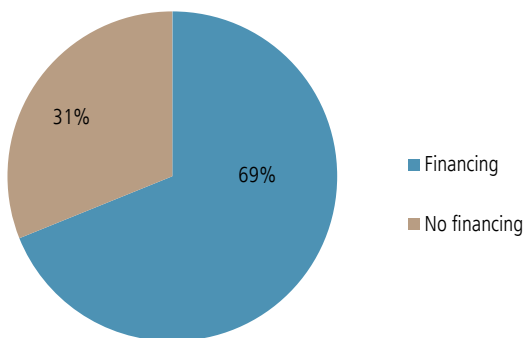
Figure 38: Intention to exchange existing two wheeler



Source: UBS Evidence Lab

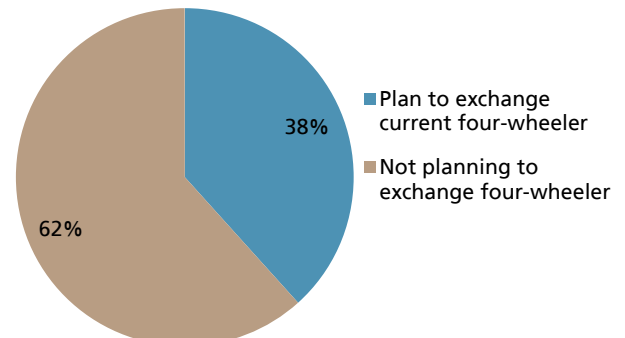
Passenger vehicle interested buyers

Figure 39: Cars—intention to avail financing



Source: UBS Evidence Lab

Figure 40: Intention of exchanging existing two-wheeler



Source: UBS Evidence Lab

Hero MotoCorp Investment Case

We believe competition is subsiding in the domestic two-wheeler market and the market is moving back to an oligopoly, dominated by Hero and Honda, as Bajaj's marginalisation continues. We expect Hero's growth to be in line with the domestic two-wheeler industry. Hence we expect Hero's EBITDA margin to improve over the medium term. However, low exposure to the faster-growing scooter segment remains an issue.

Statement of Risk

We believe the principal risk to our earnings estimates for auto companies is fluctuations in sales volumes and raw material prices. Other risks could arise from demand being linked to several factors, including economic growth and interest rates.

Hero MotoCorp: We believe a slowdown in the domestic two-wheeler market is a risk for the company. As the sector has become more competitive, the risk of price-driven competition for market share remains high. A sharp shift in the two-wheeler market to scooters would also negatively impact Hero. As Hero is still building its R&D capability, it faces product development-related risk.

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12-Month Rating	Definition	Coverage ¹	IB Services ²
Buy	FSR is > 6% above the MRA.	47%	34%
Neutral	FSR is between -6% and 6% of the MRA.	42%	28%
Sell	FSR is > 6% below the MRA.	11%	21%
Short-Term Rating	Definition	Coverage ³	IB Services ⁴
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%

Source: UBS. Rating allocations are as of 30 September 2014.

1:Percentage of companies under coverage globally within the 12-month rating category. 2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category. 4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

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UBS Securities India Private Ltd: Sonal Gupta.

Company Disclosures

Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
Bajaj Auto⁸	BAJA.BO	Neutral	N/A	Rs2,330.35	07 Oct 2014
Eicher Motors Limited	EICH.BO	Buy	N/A	Rs11,707.25	07 Oct 2014
Hero MotoCorp	HROM.BO	Sell	N/A	Rs2,811.75	07 Oct 2014
Mahindra & Mahindra	MAHM.BO	Buy	N/A	Rs1,359.15	07 Oct 2014
Maruti Suzuki India	MRTI.BO	Buy	N/A	Rs2,938.70	07 Oct 2014

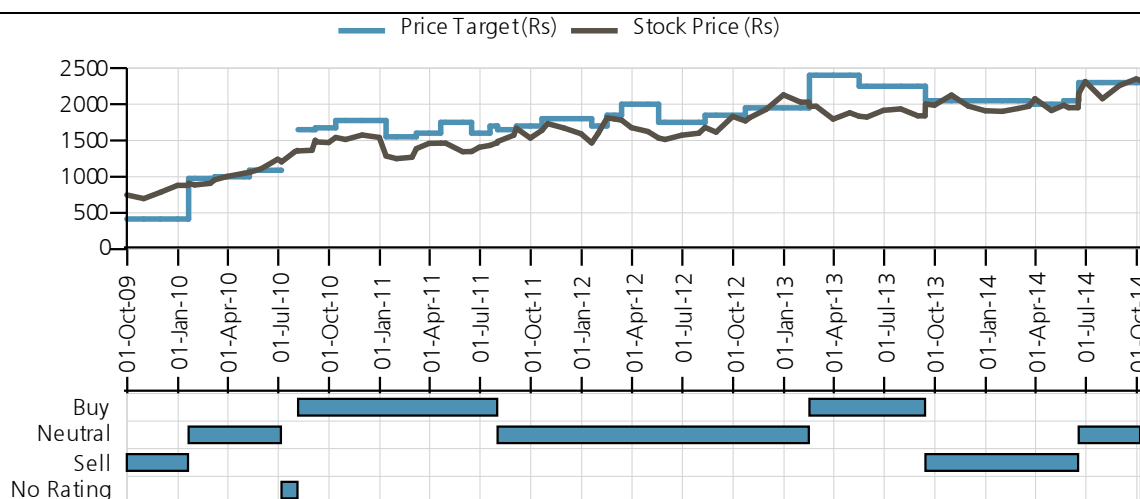
Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

8. The equity analyst covering this company, a member of his or her team, or one of their household members has a long common stock position in this company.

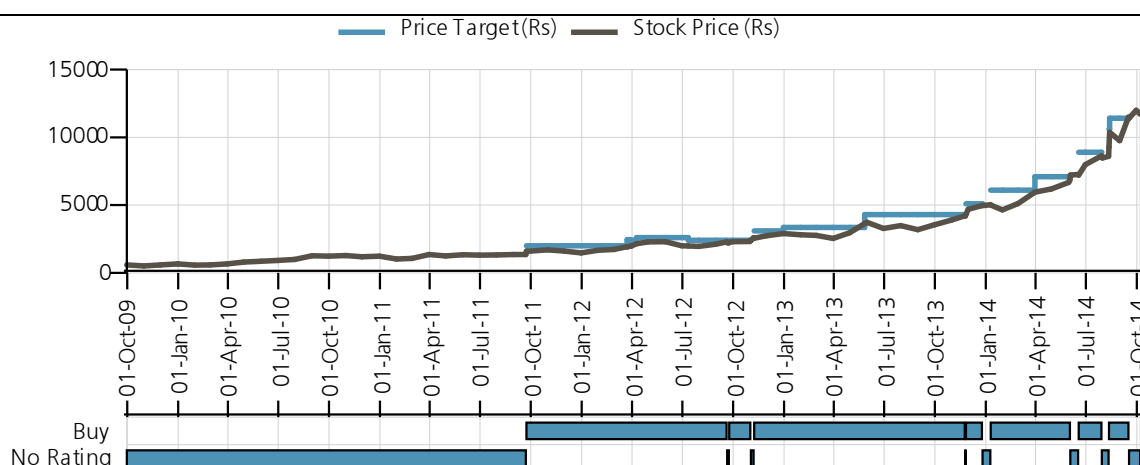
Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

Bajaj Auto (Rs)



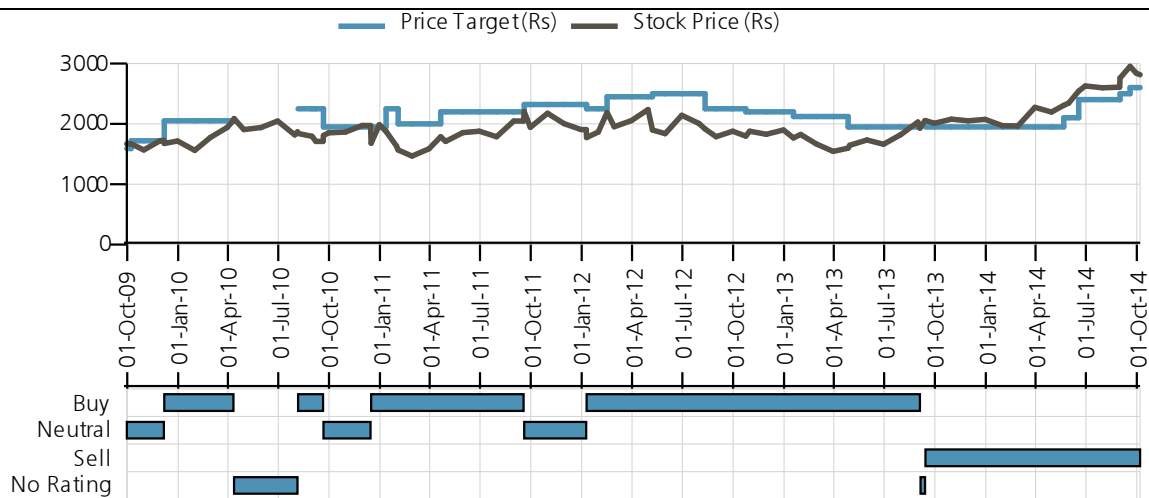
Source: UBS; as of 07 Oct 2014

Eicher Motors Limited (Rs)



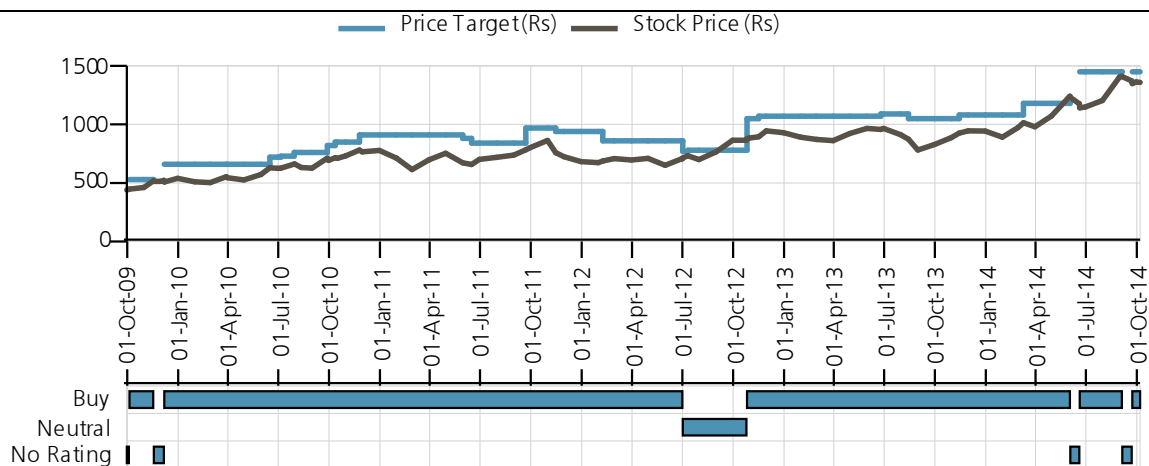
Source: UBS; as of 07 Oct 2014

Hero MotoCorp (Rs)



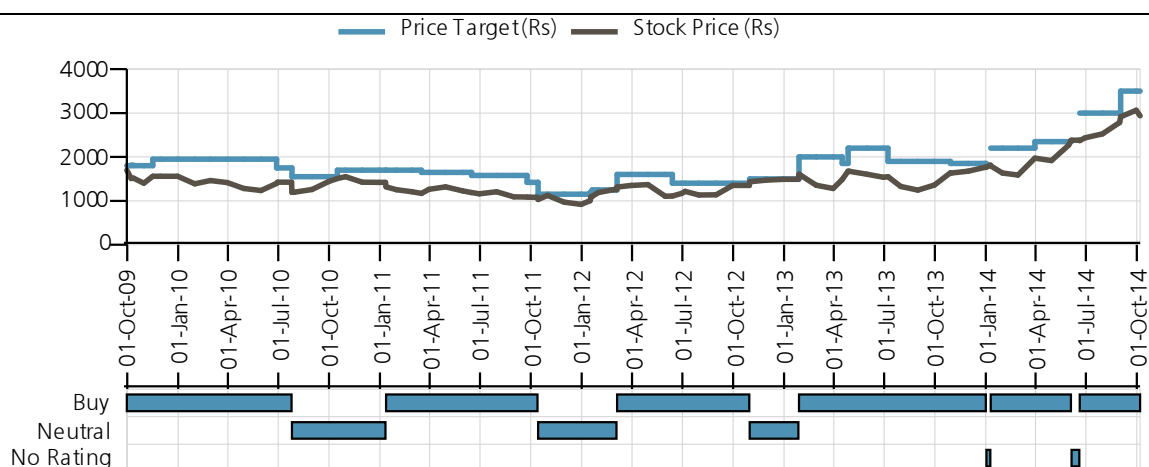
Source: UBS; as of 07 Oct 2014

Mahindra & Mahindra (Rs)



Source: UBS; as of 07 Oct 2014

Maruti Suzuki India (Rs)



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