



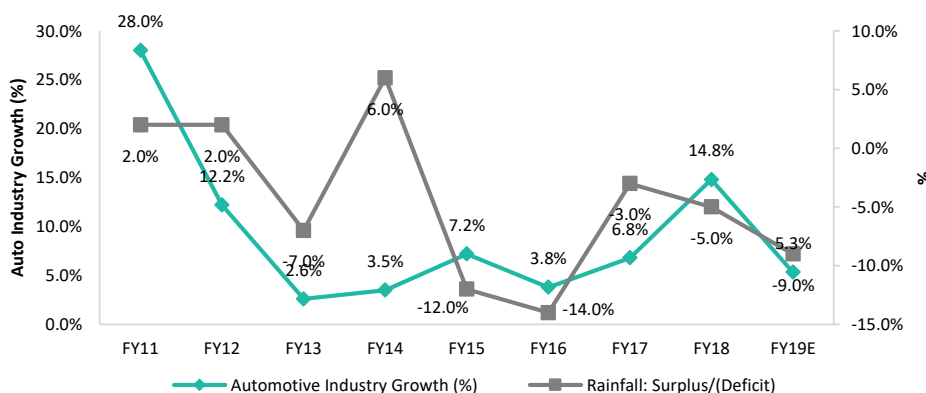
October 04, 2018

In the calendar 2018, India's rainfall was at the border level (close to 90% LPA) of declaring it as a deficit. The monsoon is very critical for the farm sector growth as it employs about 50% of India's 1.3 billion people and we believe the automotive industry growth is heavily dependent on Rural India. We have critically analysed that the automotive sales growth in the past has impacted, once there is an abnormal monsoon and we believe there will be downgrade in the FY19E volume growth target from almost all the OEMs led by sub-par monsoon, rise in the insurance prices & general increase in the vehicle prices driven by higher commodity prices.

Calendar Year	Rainfall Surplus/(Deficit)	Rainfall (% of LPA)	Status	Financial Year	Automotive Industry Growth (%)
2018	-9.0%	91.0%	Below Normal	FY19E	5.3%
2017	-5.0%	95.0%	Near Normal	FY18	14.8%
2016	-3.0%	97.0%	Normal	FY17	6.8%
2015	-14.0%	86.0%	Deficit	FY16	3.8%
2014	-12.0%	88.0%	Deficit	FY15	7.2%
2013	6.0%	106.0%	Above Normal	FY14	3.5%
2012	-7.0%	93.0%	Below Normal	FY13	2.6%
2011	2.0%	102.0%	Normal	FY12	12.2%
2010	2.0%	102.0%	Normal	FY11	28.0%

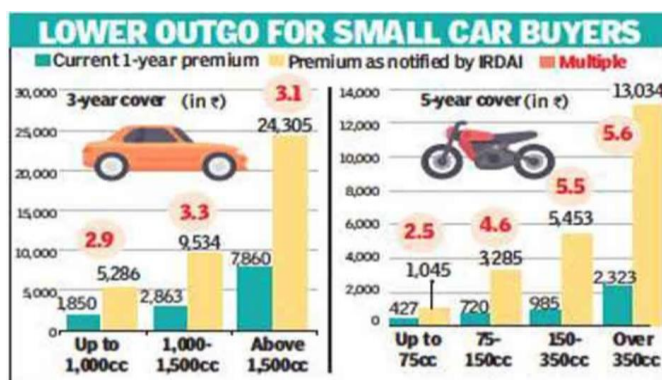
*Source: IMD, NSPL Research

Rainfall vis-a-vis Automotive Industry Correlation



Increase in the Insurance and Vehicle Prices

- IRDAI has made it compulsory for the insurance companies to provide three years of policies for new cars and five years of policies for new two wheelers.
- These rules have been implemented since 1st September 2018.
- We believe, India is a very price sensitive market and a small increase in the prices, impacts the overall demand.



*Source: Times of India

The cost of ownership is expected to rise led by:

1. The rise in the fuel prices led to a dampening of the sentiments & overall demand
2. The ABS/CBS system is getting mandatory from 1st April 2019, will increase the prices
3. The insurance prices increased by 3-5x
4. The OEMs increased the prices of the vehicles to offset the rise in the raw material prices
5. Additionally, the implementation of BS6 should further increase the prices

All this along with rising interest rates and talks are going on to raise the cess on premium cars could impact the overall demand for the automotive industry. As India is a very price sensitive market, such a sharp increase in the vehicle prices would dampen the demand across the segments and we expect a higher slowdown especially in the 2W industry growth.

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Automotive Industry – September 2018

The Automotive Industry continues to lose its sheen in the month of September 2018, adversely impacted by the rising vehicle prices, delayed festive season and impact of floods in certain states. Along with this, the buyers' sentiments were negative led by the rising fuel prices (~15.5% average increase in the fuel prices in the past six months) and increasing interest rates, which intensified the miserable situation. We think the industry to witness a slowdown in the coming months led by severe shortfall in the rains, higher prices of the compulsory long-term insurance, almost all the OEMs raised the vehicle prices to offset the higher input costs and the expectation of a mixed upcoming festive season.

On the Passenger Vehicle segment, the sales remain depressed for the past few months and the discounts/offers have increased in the market. The month of September for the top players remain muted as the festive season has shifted in the month of Oct-Nov 2018 and subdued customer sentiments led by rising interest rates, higher fuel prices and floods in certain parts of the country. Along with this, the period of *Sharadh* in India is considered as inauspicious for buying any new thing and thus delayed the purchase of vehicles. The overall demand scenario has weakened.

We were little surprised to see higher growth in the two-wheeler industry, however, we believe this growth was mainly led by higher inventory push and improvements in the exports. We think, the growth to remain subdued in the coming months driven by higher compulsory long-term insurance prices, which will increase the vehicle prices by Rs. 8,000-9,000 on entry-level motorcycles. As the domestic market remains very price sensitive, thus would impact the overall demand. Additionally, the shortfall in the rains and a rise in the 2W prices to diminish the sentiments.

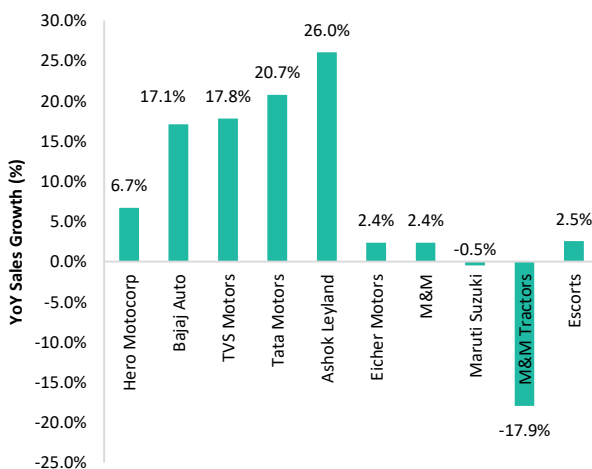
On the three-wheeler industry, this is the first month where we have observed some exhaustion in the domestic market demand, after posting very high double digit growth in the past several months. Although the overall growth was supported by higher exports. However, we believe there is a lot of juice left, as there are talks of releasing more permits and eventually to get rid-off the permit-raj, which will boost the 3W demand.

The Commercial Vehicle demand continued to remain 'a light in the dark' as it posted healthy numbers on strong economic activities and rising average truck utilisation rate, which was among the best in the five years as per the reports, led by higher demand from the industrial and agriculture sectors. The MHCV sales were higher due to increase in the infrastructure spends, affordable housing and healthy growth in the core sectors. The e-commerce, FMCG & Consumer Durable industries supported the growth further. We believe the CV sales to remain buoyant in the coming months as the farm loan waivers & MSP hikes to support the rural sentiments and the overall macro indicators suggest a better road ahead.

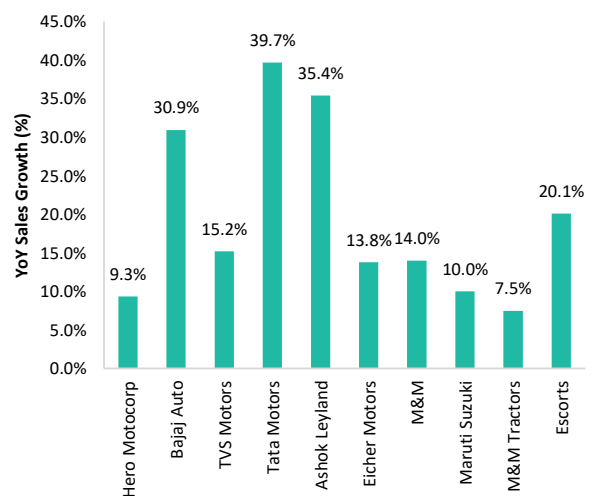
We have changed our stand on the automotive industry and believe there are multiple speed bumps which will soften the demand in the 2nd half of FY19.

The stars for the month of September 2018 remains Bajaj Auto in the two-wheeler space as all its segments (2W+3W) & geographies (Domesic+Exports) performed well. Tata Motors continued to remain the top performer in the passenger as well as commercial vehicle segment (despite higher base) and is gaining market share, driven by the new launches & rising economic activities. On the other side, Eicher Motors remained the laggard for the month majorly impacted due to on-going strike in one of its plants. Since the last three months, Maruti's sales remain depressed and thus things look gloomy for the rest of the year in achieving its target of double digit for FY19E. M&M too not behind in reporting a 16% decline in its passenger vehicle sales. VECV posted its sales growth much lower compared to its major peers.

September 2018 YoY Sales Growth



YTD FY19 YoY Sales Growth



*Source: IMD, NSPL Research

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Bajaj Auto's High Growth Trajectory Continues

Bajaj Auto	Sep-18	Sep-17	YoY (%)	Aug-18	MoM (%)	YTFY19	YTFY18	YoY (%)
2Ws	4,30,939	3,69,678	16.6%	3,62,923	18.7%	21,56,506	16,94,435	27.3%
3Ws	71,070	59,074	20.3%	74,169	-4.2%	4,09,579	2,65,509	54.3%
Domestic	3,11,503	2,81,779	10.5%	2,55,631	21.9%	14,93,310	11,47,844	30.1%
Exports	1,90,506	1,46,973	29.6%	1,81,461	5.0%	10,72,775	8,12,100	32.1%
Total Sales	5,02,009	4,28,752	17.1%	4,37,092	14.9%	25,66,085	19,59,944	30.9%

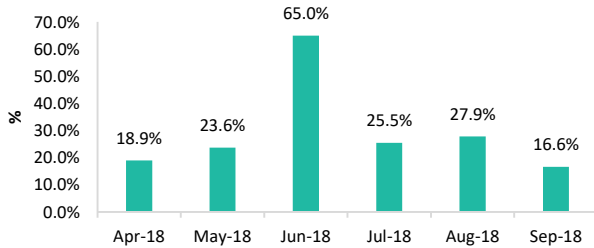
September 2018 & YTFY19 Sales Highlights (YoY):

- Bajaj Auto's domestic as well as exports motorcycle reported its highest ever monthly sales. The domestic motorcycle grew by 10% YoY to 2.73L units, while export motorcycle sales grew by 29% YoY to 1.58L units.
- Three-wheelers sales reported an increase of 12% YoY to 38.4K units in the domestic market and 3W exports growth was robust at 32% YoY to 32.6K units. We have recently observed some tapering-off in 3W sales growth in the industry.
- The company has posted its highest ever monthly sales in the month of September 2018. It reported 17% YoY growth to ~5L units driven by exports as well as domestic geographies.
- For YTFY19, Bajaj Auto reported 30% YoY growth in the domestic market to 14.9L units, while the sales from exports were about 10.7L units, an increase of 32%. This is the highest growth reported among its listed peers.
- Three wheeler sales in domestic for YTFY19 has shown a high double digit growth of about 50% to 2.06L units and the growth for the 3W exports too grew at a similar pace of 59% YoY to 2.03L units.
- Overall, we have observed that Bajaj Auto continued to report high double digit YoY growth in 2Ws as well as 3Ws.

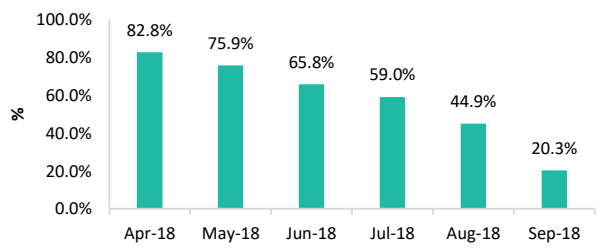
We prefer Bajaj Auto as our top pick as it continued to report a bumper growth in sales in each & every month of FY19. The company's Exports, Domestic 3Ws as well as 2Ws are firing very well. On 2Ws, the strategy of reducing prices in the lower CC bikes must have worked in favour of the company as it has gained market share. Along with this, filling product gaps and successful new launches & refreshers in the past has supported the growth. We trust that the sales growth to continue for Bajaj and the powerful combination of Triumph+Husqvarna+KTM along with Bajaj's premium products would add muscularity to its premium 2W sales in the coming years.

We have observed some tapering-off in the 3W domestic growth after posting record high double digit growth for several months in the past. We believe there will be some consolidation phase in the 3W industry growth in the coming months. On the other side, the exports rebounded from the past several months led by a sharp rise in the oil and commodity prices, good performance in the newer geographies and stability in the African markets. Overall, we expect continued gains in the market share across its products and geographies.

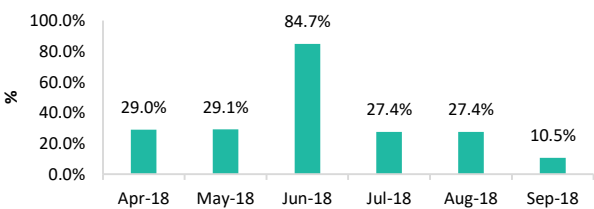
Bajaj Auto 2W Sales Trend



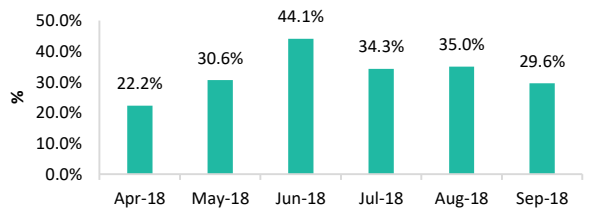
Bajaj Auto 3W Sales Trend



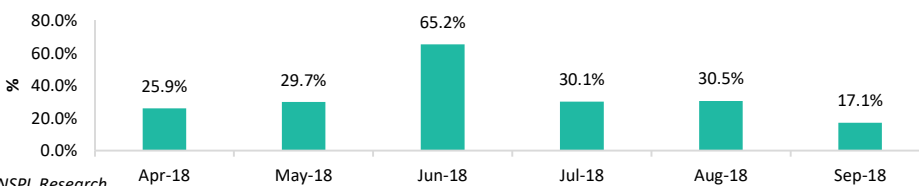
Bajaj Auto Domestic Sales Trend



Bajaj Auto Export Sales Trend



Bajaj Auto's Total Sales Trend



*Source: Company, NSPL Research

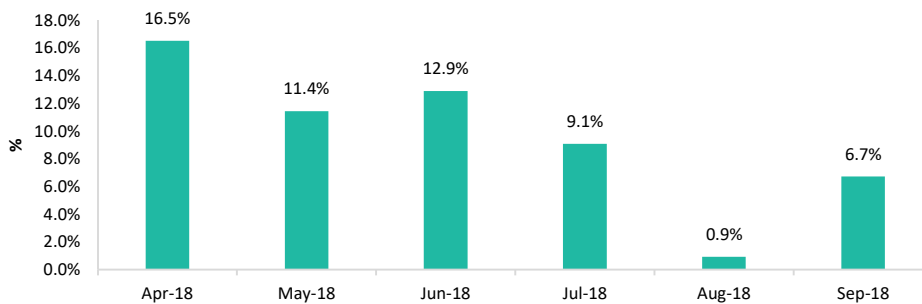


Hero Motocorp's Reported ~7% Growth

Hero Motocorp	Sep-18	Sep-17	YoY (%)	Aug-18	MoM (%)	YTD FY19	YTD FY18	YoY (%)
Total Sales	7,69,138	7,20,739	6.7%	6,85,047	12.3%	42,38,996	38,76,580	9.3%

- Hero's sales grew by ~7% YoY to 7.7L units, which is its highest ever sales in any month.
- We have observed that Hero after posting double digit growth in the initial months of FY19, has started reporting single digit YoY growth in the past three months. This we believe mainly due to high base and intense competition.
- The company has commenced sales of its newly launched Xtreme 200R and has plans to launch few new 2Ws in the 2nd half of FY19. This should help the company in maintaining its monthly sales numbers.
- We expect Hero Motocorp to report mid single digit growth for FY19E as ~50% of its sales comes from the hinterland, which is in the doldrums majorly impacted by rainfall deficit in the calendar year 2018. In addition, the price sensitive rural market would like to postpone its purchases due to increase in the compulsory long-term insurance prices. Overall, we believe the 2nd half would remain challenging for the industry and especially for Hero Motocorp.

Hero Motocorp's 2W Sales Trend

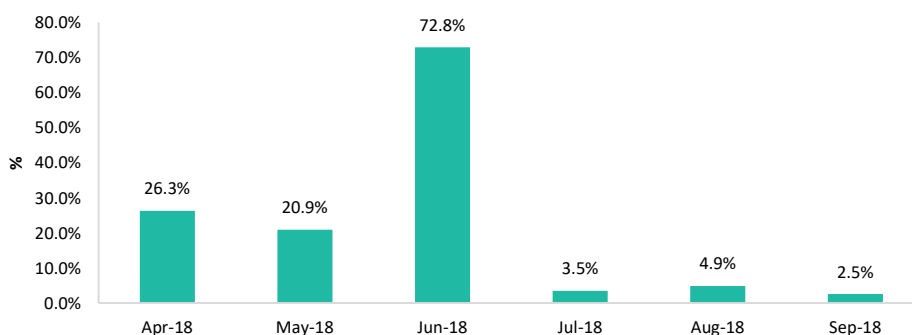


Escorts Sales Rise 2.5%, Better than its Peers

Escorts	Sep-18	Sep-17	YoY (%)	Aug-18	MoM (%)	YTD FY19	YTD FY18	YoY (%)
Domestic	10,396	10,144	2.5%	4,674	122.4%	44,492	37,016	20.2%
Exports	221	209	5.7%	138	60.1%	1,041	903	15.3%
Total Sales	10,617	10,353	2.5%	4,812	120.6%	45,533	37,919	20.1%

- The tractor industry growth has come down and Escorts was no exception to it. The Q2FY19 was little depressed for the company as it reported growth in a meagre single digit vis-à-vis high double digit growth in Q1FY19.
- The company reported 2.5% YoY growth to 10,617 units in September 2018, while the growth in YTD FY19 increased by 20% YoY to 45,533 units. **Escorts has been performing better than M&M in the last few months and overall YTD FY19.**
- In September 2018, the sales growth was low as the festive season has shifted in Oct-Nov 2018 and some parts of the country were impacted due to floods and crop damages. However, the management looks positive for the upcoming 3rd quarter and expect the tractor industry to report 12-15% growth in FY19E.

Escorts Total Sales Trend



*Source: Company, NSPL Research

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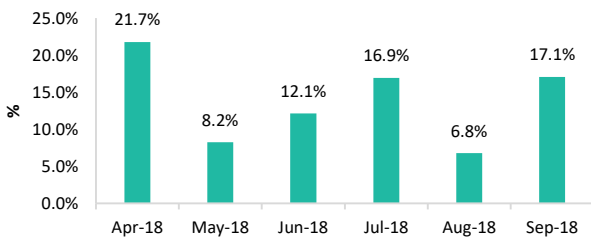


TVS Motors back in its Mojo

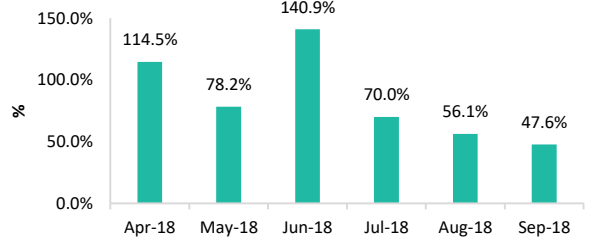
- TVS is back in the game after it reported a dull run in the month of August 2018 led by flash floods in certain states. In September 2018, it reported one of the highest growth among its peers.
- Its 2W domestic sales grew strong by 17.6% YoY to 3.6L units, while exports contributed healthy 13% YoY growth to 49.5K units. The total 2W sales increased by 17% YoY to 4.11L units in September 2018. The sales growth was driven by both its motorcycles as well as scooters, which grew by 17% & 16% respectively for the month.
- We have observed some slowdown in the domestic 3W industry and TVS reported 4% de-growth to 1,650 units in September 2018, while exports remained buoyant and reported a healthy 60% YoY growth to 11,632 units .
- The total domestic sales increased by 17.5% YoY to 3.6L units and exports grew healthy at 20% YoY to 61K units. The overall sales increased by ~18% YoY to 4.24L units driven by all its segments.
- **We have observed, although on the lower base, but the TVS 3Ws YoY growth has remained better than Bajaj's in the first half of FY19.**

TVS Motors	Sep-18	Sep-17	YoY (%)	Aug-18	MoM (%)	YTFY19	YTFY18	YoY (%)
2Ws	4,10,696	3,50,854	17.1%	3,30,076	24.4%	19,41,382	17,08,407	13.6%
3Ws	13,282	8,996	47.6%	13,141	1.1%	75,266	42,285	78.0%
Total Sales	4,23,978	3,59,850	17.8%	3,43,217	23.5%	20,16,648	17,50,692	15.2%

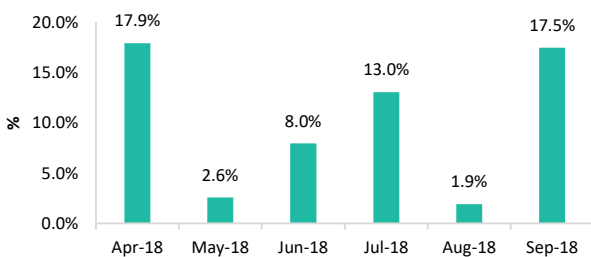
TVS Motors 2W Sales Trend



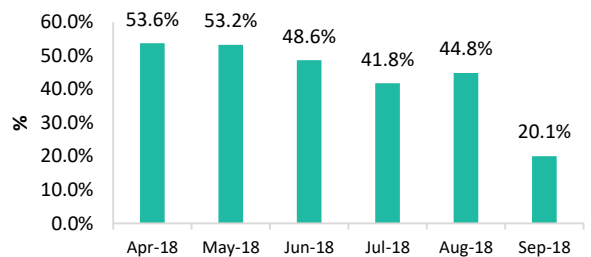
TVS Motors 3W Sales Trend



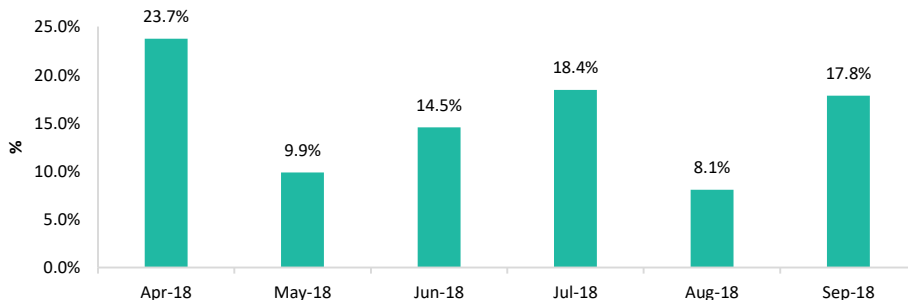
TVS Motors Domestic Sales Trend



TVS Motors Exports Sales Trend



TVS Motors Total Sales Trend



*Source: Company, NSPL Research

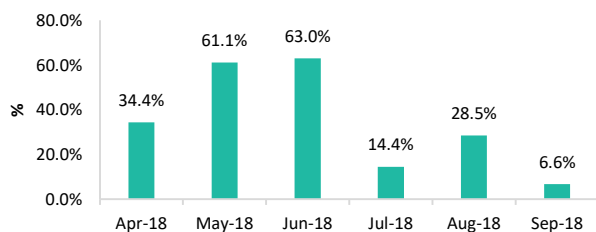


Tata Motors Continues to Gain Market Share across CVs and PVs

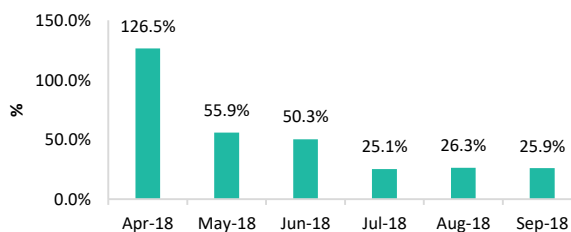
Tata Motors	Sep-18	Sep-17	YoY (%)	Aug-18	MoM (%)	YTD FY19	YTD FY18	YoY (%)
PVs - Domestic	18,429	17,286	6.6%	18,420	0.0%	1,06,865	81,417	31.3%
CVs - Domestic	46,169	36,678	25.9%	39,859	15.8%	2,32,487	1,61,370	44.1%
Domestic	64,598	53,964	19.7%	58,279	10.8%	3,39,352	2,42,787	39.8%
Exports	5,250	3,887	35.1%	5,478	-4.2%	27,654	19,942	38.7%
Total Sales	69,848	57,851	20.7%	63,757	9.6%	3,67,006	2,62,728	39.7%

- **Tata Motors once again reported healthy set of number and is one of our top pick.** Its growth momentum continues with a rise in the domestic sales by ~20% YoY to 64.6K units, led by both its passenger as well as commercial vehicles. The export growth picked up sharply and remained healthy from the past several months
- The top players in the passenger vehicle industry reported a de-growth in the month of September 2018, however, Tata Motors witnessed a growth of 6.6% YoY to 18,429 units in domestic. The company has grown since the past three months, while the PV industry was flat to negative. All the newly launched vehicles of the company has been performing well. Its recently launched Tiago NRG, Nexon AMT & Nexon KRAZ have received good traction in the market. It has turnaround its passenger vehicle segment and we expect continued strong traction in the coming months.
- Tata Motors remained the market share gainer in its commercial vehicle segment. The CV growth has been led by good performance across its vehicles. The MHCV growth was driven by its Signa and Prima trucks and tipplers, while the growth in the I&LCV truck segment was healthy due to a new Tata Ultra range of trucks. Its Ambulances and Buses sales were steady at 6% YoY to 4,619 units.
- The exports remained in a healthy condition as it continued to post record high double digit growth from several months. In fact, the exports growth was among the highest among its peers in the month of September 2018.
- **Overall, all its segments and geographies posted a strong set of numbers and we believe this should continue in the coming months too** as they have filled all the product gaps and keep launching newer vehicles to continue to excite the customers.

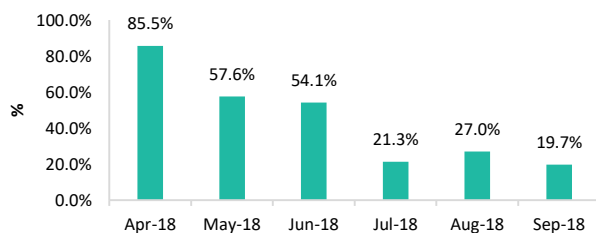
Tata Motors PV Sales Trend



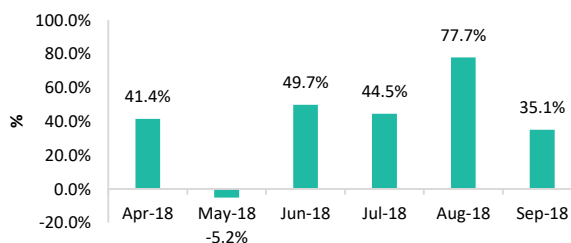
Tata Motors CV Sales Trend



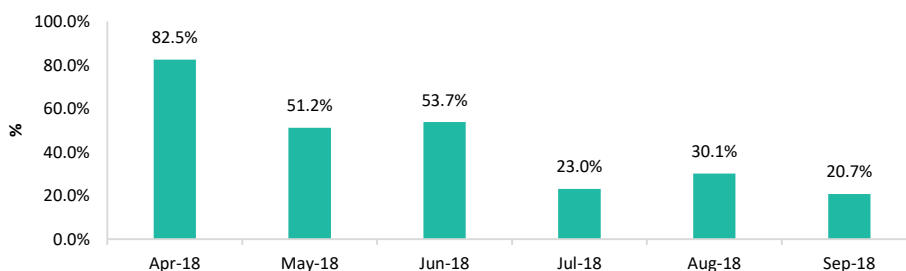
Tata Motors Domestic Sales Trend



Tata Motors Export Sales Trend



Tata Motors Total Sales Trend



*Source: Company, NSPL Research

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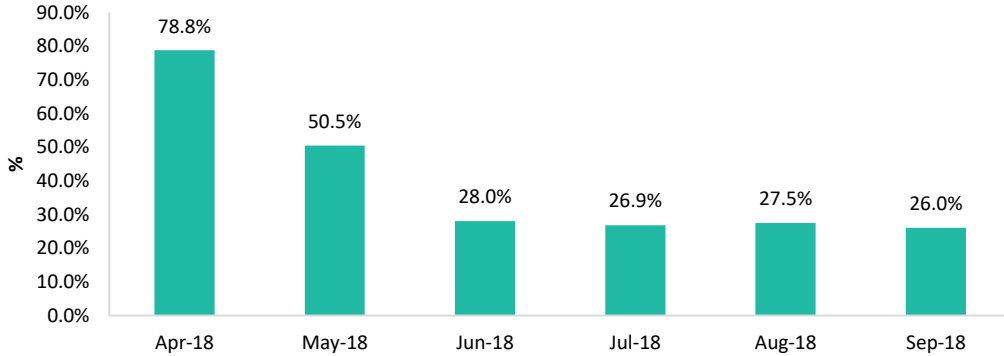


Ashok Leyland’s Impressive Performance Continues

Ashok Leyland	Sep-18	Sep-17	YoY (%)	Aug-18	MoM (%)	YTD FY19	YTD FY18	YoY (%)
Total Sales	19,373	15,371	26.0%	17,386	11.4%	94,086	69,487	35.4%

- Ashok Leyland’s sales rose by 26% YoY to 19,373 units driven by MHCV as well as LCV segments. The MHCV segment sales grew by 21% to 14,232 units, while LCV rose by 44% YoY to 5,141 units for the month of September 2018. The company’s sales remain very healthy & impressive for the last few months and it is steadily gaining market share especially in the MHCV segment.
- For YTD FY19, the MHCV and LCV sales grew very healthy by 35% & 38% to 69,033 units & 25,053 units respectively. After Tata Motors, we are very optimistic about the company’s prospects in the coming months.

Ashok Leyland Sales Trend



*Source: Company, NSPL Research

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Mahindra & Mahindra – PVs remained silent, Sales uplifted by CVs,

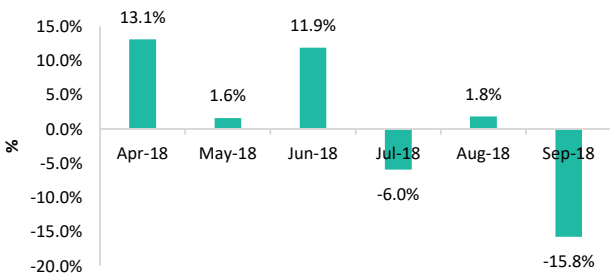
Mahindra & Mahindra	Sep-18	Sep-17	YoY (%)	Aug-18	MoM (%)	YTD FY19	YTD FY18	YoY (%)
PVs	21,411	25,414	-15.8%	19,758	8.4%	1,21,729	1,21,849	-0.1%
CVs	22,917	19,203	19.3%	20,326	12.7%	1,19,467	96,982	23.2%
3Ws	6,940	5,928	17.1%	5,289	31.2%	30,774	23,666	30.0%
Domestic	51,268	50,545	1.4%	45,373	13.0%	2,71,970	2,42,497	12.2%
Exports	3,754	3,207	17.1%	2,951	27.2%	18,676	12,460	49.9%
Total Automotive Sales	55,022	53,752	2.4%	48,324	13.9%	2,90,646	2,54,957	14.0%
Tractors	37,581	45,788	-17.9%	17,785	111.3%	1,78,829	1,66,379	7.5%
Total Sales	92,603	99,540	-7.0%	66,109	40.1%	4,69,475	4,21,336	11.4%

The performance of M&M’s passenger vehicles, commercial vehicles as well as three wheelers remains soft as compared to its listed peers. Even, the tractor sales growth on a YTD basis is lower than the Escorts growth. Mahindra’s exports grew at a reasonable pace in the month of September 2018 and healthy on a YTD basis as the YoY growth was the highest among all the listed peers. Overall, the total volumes remained sub-par for the month of September 2018, however on a YTD basis, it remained at a satisfactory level.

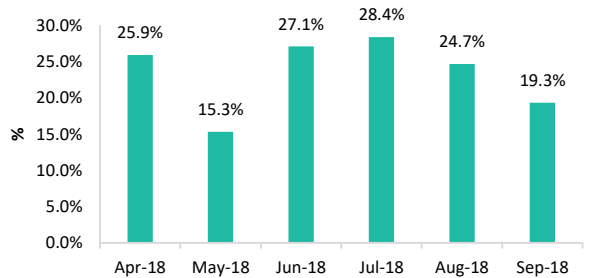
In passenger vehicles, the company has been losing market share in the UV segment and the sales from it remained subdued, which de-grew by 18% YoY to 19,885 units, which we believe is due to intense competition. The overall sales of PV were supported by its cars & vans segment, which reported a healthy 17% YoY growth to 1,526 units in September 2018. The management expects good performance in the PV post launch of its new vehicle ‘Marazzo’.

The company has been performing very well in the commercial vehicles, as all its sub-segments viz. LCVs & MHCVs posted a good set of numbers. The 3Ws performance also remained reasonable. On the tractor side, we have observed that the company is reporting slower growth than Escorts in the past several months.

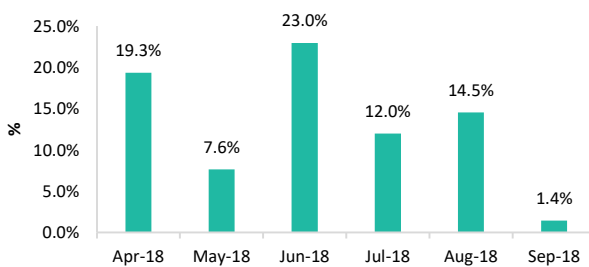
M&M PV Sales Trend



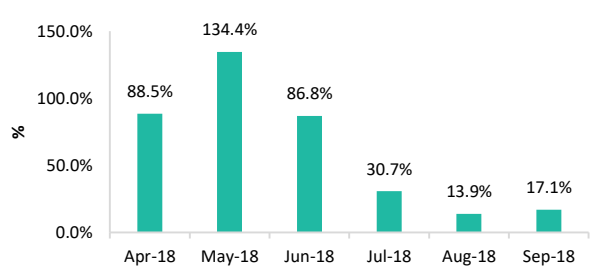
M&M CV Sales Trend



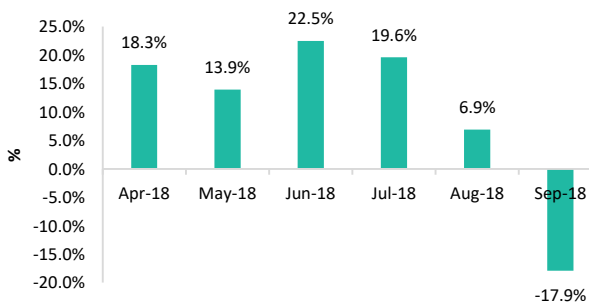
M&M Domestic Sales Trend



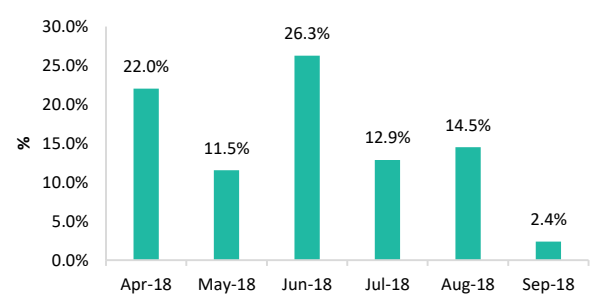
M&M Export Sales Trend



M&M Tractors Sales Trend



M&M Total Sales Trend



*Source: Company, NSPL Research



Dismal Performance from Eicher Motors

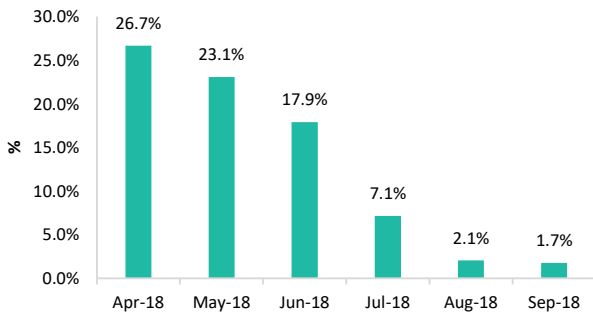
Eicher Motors	Sep-18	Sep-17	YoY (%)	Aug-18	MoM (%)	YTDFY19	YTDFY18	YoY (%)
Eicher upto 350 cc	67,582	66,104	2.2%	65,712	2.8%	4,04,700	3,61,198	12.0%
Eicher 350 cc+	4,080	4,327	-5.7%	3,665	11.3%	30,763	25,665	19.9%
Total Motorcycles	71,662	70,431	1.7%	69,377	3.3%	4,35,463	3,86,863	12.6%
Buses	698	886	-21.2%	863	-19.1%	6,650	6,561	1.4%
CVs	5,965	5,197	14.8%	5,206	14.6%	28,269	20,006	41.3%
Total Sales	78,325	76,514	2.4%	75,446	3.8%	4,70,382	4,13,430	13.8%

On Royal Enfield sales, the company has been facing strike since 24th September 2018 in one of its plant and has resulted in loss of production of 10,000 motorcycles in the same month. We believe apart from the production loss, there is a serious demand slowdown led by intense competition from the domestic as well as foreign players, as all wants a pie of the premium segment. The motorcycle domestic sales continue to report slower growth in every month on a YoY basis, while the exports remained at a healthy level.

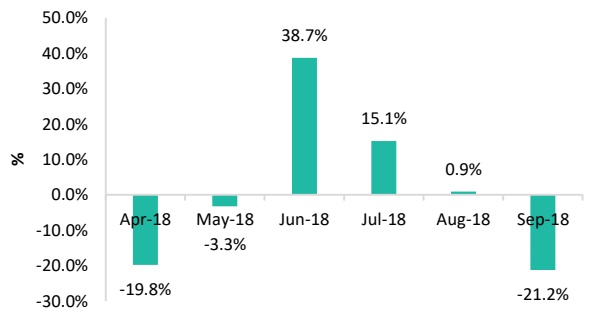
In addition to this, the floods in Kerala and other states also impacted the sales. The huge disappointment was from RE>350cc+ bikes, which de-grew by 6% YoY to 4,080 units in September 2018, while the sales of RE up to 350cc bikes just grew by 2% YoY to 67.6K Units. The 350cc+ bikes de-grew for the 2nd consecutive month in a row and the growth number for bikes up to 350cc grew meagrely in a low single digit from the last three months.

On the commercial vehicle segment, VECV reported its slowest growth in the month of September 2018 as compared to its listed peers. Although, on a YTD basis, the growth remained very strong.

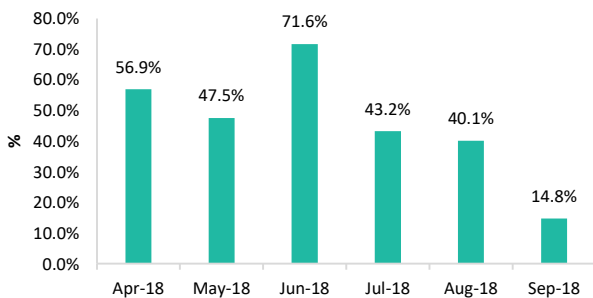
Royal Enfield Sales Trend



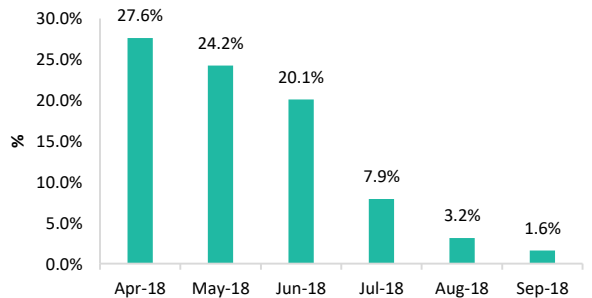
Eicher Motors PV Sales Trend



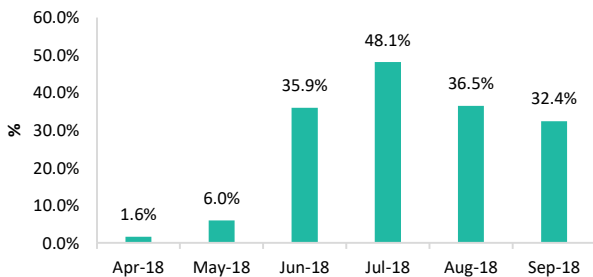
Eicher Motors CV Sales Trend



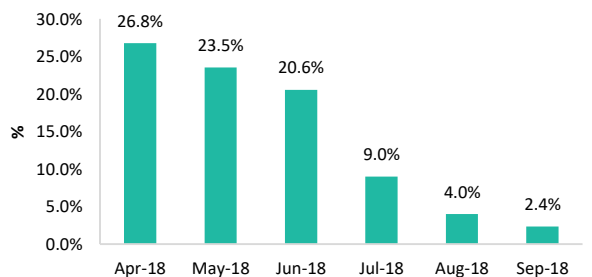
Eicher Motors Domestic Sales Trend



Eicher Motors Export Sales Trend



Eicher Motors Total Sales Trend



*Source: Company, NSPL Research

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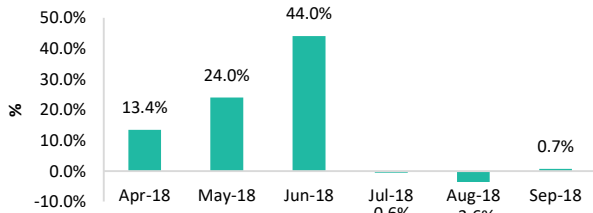
Maruti Suzuki Hits the Speed Bump in July, August & September 2018

Maruti Suzuki	Sep-18	Sep-17	YoY (%)	Aug-18	MoM (%)	YTD FY19	YTD FY18	YoY (%)
PVs	1,51,512	1,50,521	0.7%	1,45,895	3.9%	9,08,801	8,22,475	10.5%
LCVs	2,038	879	131.9%	1,805	12.9%	10,439	3,357	211.0%
Domestic	1,53,550	1,51,400	1.4%	1,47,700	4.0%	9,19,240	8,25,832	11.3%
Exports	8,740	11,671	-25.1%	10,489	-16.7%	56,087	60,857	-7.8%
Total Sales	1,62,290	1,63,071	-0.5%	1,58,189	2.6%	9,75,327	8,86,689	10.0%

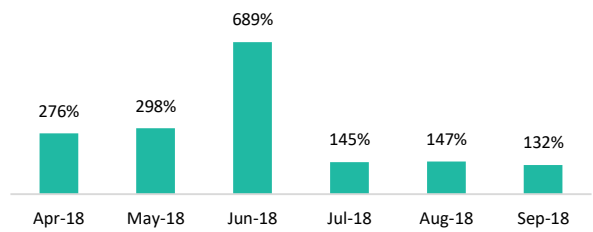
Maruti’s July 2018 sales declined by 1% YoY, while the sales were lower by 3% YoY in August 2018 and remained flat in the month of September 2018. The July 2018 sales were impacted led by higher base, planned inventory de-stocking and intense competition. The August sales were lower on account of the deluge in Kerala and heavy rains in other parts of the country. The September sales were lower, led by increased cost of ownership on the back of mandatory long-term insurance, rising fuel prices and interest rates. The Kerala flood impact remained in the month of September too. At present, the company has been pushing its inventory stock at dealers and giving discounts/offers.

- It’s passenger cars sub-segment reported a negative growth of 1.4% YoY to 1.15L units on account of 9% fall in its ‘Mini’ sub-segment. The ‘Mini’ sub-segment YTD performance also remained subdued as its sales de-grew by 2.8% YoY. We believe the performance was impacted on account of higher competition in the lower cost segment vehicles and high base. Also, the buyers changed their preferences towards compact UV instead of Alto & WagonR.
- The newly launched ‘Ciaz’ reported to show reasonably good performance as the sales grew in lower double digit. The YTD sales declined by ~30% due to intense competition from Verna, City & Yaris. We think the refresher model of Ciaz should work well for Maruti in the coming months.
- The Compact segment, which consists of its popular cars like Swift, Celerio, Ignis, Baleno & Dzire grew by 1.7% YoY to 74,011 units in September 2018. While, the YTD FY19 performance remained robust, which shown a growth of 23.9% YoY to 4,52,415 units. Maruti’s larger chunk of sales has been coming from this segment and its performance remains healthy.
- The sales of its Utility segment (S-Cross, Brezza, Ertiga & Gypsy) improved its sales by ~9% after declined in the month of July & August 2018.
- The only segment which continues to show triple digit growth in all the past five months of FY19 was its LCV division. It reported a ~132% YoY growth to 2,038 units in September 2018, while shown a growth of about 211% YoY to 10,439 units in YTD FY19.

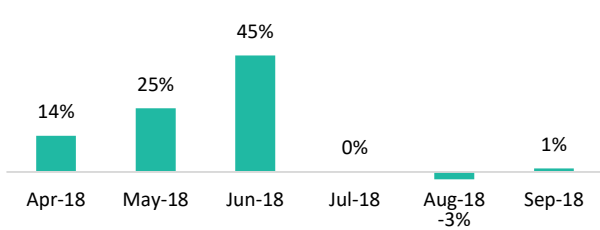
Maruti Passenger Vehicle Sales Trend



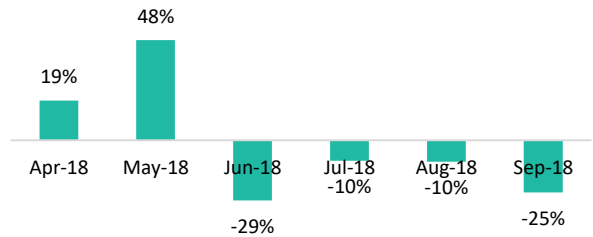
Maruti LCV Sales Trend



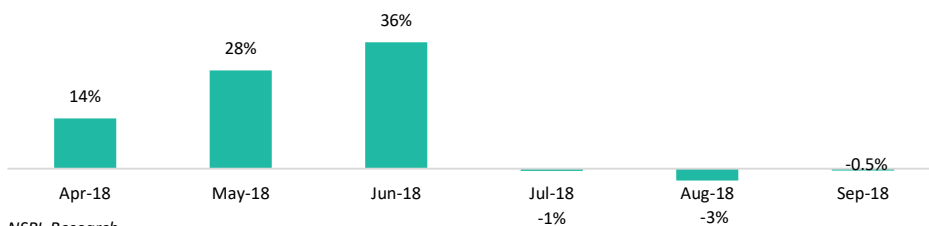
Maruti Domestic Sales Trend



Maruti Export Sales Trend



Maruti Total Sales Trend



*Source: Company, NSPL Research

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