

# Automobiles

## Channel Check Update

November 27, 2020

### Exhibit 1: PL Coverage

Company Name	Rating	CMP (Rs)	TP (Rs)
Ashok Leyland	BUY	89	100
Bharat Forge	HOLD	513	439
Bajaj Auto	Hold	3,129	3,108
CEAT	Acc	1,125	1,223
Eicher Motors	Acc	2,549	2,598
Exide Industries	BUY	173	194
Hero Motocorp	Acc	3,025	3,282
M&M	BUY	729	826
Maruti Suzuki	BUY	6,994	7,642
Motherson Sumi	BUY	143	165
Tata Motors	HOLD	174	146
TVS Motors	Sell	475	386

Source: Company, PL

### PV demand robust, early sign of recovery in HCV

#### Quick Pointers:

- Post festive PV demand healthy while HCVs show signs of recovery (+40 tons).
- CV fleet operators sentiment keep improving with ~4-5% freight increase.
- Royal Enfield continues to face supply constraints. Meteor bookings at ~12k.

**Interactions with leading channel partners indicate sustenance of post festive demand in PVs (+8-10% YoY) backed by 1) new product launches, 2) increasing share of first time buyers and 3) healthy wedding season demand in key northern states. This has resulted in waiting period across key running models ranging between 1-6 weeks for MSIL. We see signs of demand coming back in HCVs (backed by strong demand from construction, cement and heavy industries like steel) while momentum in ICVs, Tipplers and LCVs continue. Fleet operator's sentiments improved further with ~4-5% increase in freight rates in Nov (v/s Sep). On the other hand, 2W segment demand further eased post festive with major states hinting at decline of ~8-10%. Tractors continued to observe strong demand with 5-10% YoY growth in retails led by i) higher farm output (4-6% YoY) ii) better finance support (LTV ~95%) and iii) better cash flows with farmers (direct govt. transfers). This was partially offset by limited supplies as inventory remains lower at ~15-20 days across tractor OEMs.**

### View: Prefer AL and MM among OEMs

- AL (CMP Rs89, TP Rs100)**- We believe MHCV volumes will recover by H1FY22 based on i) economic recovery benefitting demand from segments like Infra, Mining and E-commerce and ii) AL de-risking MHCV through- a) New launches in LCV to gain market share and b) Increased focus on spares and exports business.
- MM (CMP Rs729, TP Rs826)**- We believe MM is well placed to grow in FY21/22 as FES segment has robust outlook led by healthy farm sentiments and strong rural presence benefitting UV sales. Also, focus on the core intensified with improved capital allocation, plans for loss making subsidiaries (exit or turnaround) and preference for rural exposure.

### Exhibit 2: Snapshot of volumes for Nov-20

Company Sales	Nov-20	Nov-19	YoY gr. (%)	Oct-20	MoM gr. (%)
Maruti Suzuki	1,63,800	1,50,630	8.7	1,82,448	(10.2)
Mahindra & Mahindra	61,730	62,267	(0.9)	90,917	(32.1)
Automotive	38,230	41,235	-7.3	44,359	-13.8
Tractors	23,500	21,032	11.7	46,558	-49.5
Hero MotoCorp	7,10,000	5,16,775	37.4	8,06,848	(12.0)
Bajaj Auto	4,84,000	4,03,223	20.0	5,12,038	(5.5)
Ashok Leyland	10,150	10,175	(0.2)	9,989	1.6
TVS Motor	3,38,900	2,66,582	27.1	3,94,724	(14.1)
Eicher Motors					
Royal Enfield	62,000	60,411	2.6	66,891	(7.3)
VECV	3,820	3,594	6.3	4,200	(9.0)

Source: Industry, PL

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## Wholesales estimate for November'20

- **PV-** MSIL wholesale is expected to increase 9% YoY at 163.8k while MM automotive sales are expected at 38.2k units (-7% YoY).
- **2W-** Estimate for BJAUT (incl 3W) at 484k (+20% YoY), HMCL at 710k (+37% YoY), TVS (incl 3W) at 338.9k (+27% YoY) and RE at 62k (+3% YoY).
- **CV-** We expect AL wholesales to decline to 10.2k (-0.2% YoY).
- **Tractor-** We expect MM tractor sales to increase by 12% YoY at 23.5k units.

### Exhibit 3: Waiting period for key models

OEMs	Models	Waiting period
MSIL	Alto, Swift, Dzire	7-10 days
MSIL	Brezza	3-4 weeks
MSIL	CNG Models	4-6 weeks
Hyundai	New Creta	6-8 months
Hyundai	Venue	4-6 weeks
MM	XUV300	3-4 weeks
TTMT	Altroz	7-8 weeks
TTMT	Nexon	7-8 weeks

Source: Industry, PL

## PV: Sustenance in demand momentum post festive

- **Demand momentum continued post festive with 20-25% YoY growth.** This is led by low base due to festive period mismatch in 2019. Excluding festive impact demand growth would be ~8-10%. Post festive, strong momentum in PVs was backed by i) marriage season demand (35-40% of overall non festive sales for the month), ii) continued increase in first time buyers (which is now at ~55%) and iii) new model launches helping footfalls and inquiries.
- **Waiting period remains higher across all OEMs-** We noted higher waiting for key MSIL models such as Alto, Swift, Dzire (7-10 days), Brezza (3-4 weeks) and CNG models (4-6 weeks). Among other OEMs, Hyundai Creta has waiting of 6-8 months while the same is of 1-1.5 months for Venue. MM XUV300 has waiting of 3-4 weeks while TTMT Altroz and Nexon has waiting of 6-8 weeks.
- **Sharp correction in inventory levels led by limited supply-** MSIL and Hyundai have inventory of 14-17 days (v/s 25-28 days last month) while MM and TTMT inventory too continue to remain lower at 10-15 days and 5-10 days respectively (flat MoM).

## 2W: Demand momentum eased off further post festive

**Our checks suggest overall bookings of 145k for Royal Enfield with Meteor bookings at ~11.7k units.**

- **2W demand eased off further post festive lead to sales decline of 8-10% YoY.** The decline is largely led by i) muted recovery in metro/tier-1 as educational institutions and corporates remained shut ii) financing is comparatively more challenging (v/s PVs) iii) lower discounts (almost nil) across all the OEMs
- Among 2Ws, HMCL is better off and close to last year's volumes led by i) strong rural sentiments. Other OEMs such as HMSI (led by unavailability of key models like Shine), TVS (slow pickup in scooters) and Bajaj (lack of lower end models) failed to attract higher inquiries.
- Inventory with HMCL and HMSI dealers reduced to ~4 weeks (v/s 7-8 weeks) while the same remained stable at ~3-4 weeks for BJAUT and TVS. RE too is falling short of inventory led by supply challenges resulting in inventory level of less than 7 days.
- Bookings trends for Royal Enfield remain encouraging led by new launch and healthy traction in Tier-2/3 and rural towns. **However, short supply of key component such as batteries are impacting production and dispatches.** We expect RE sales to be at 62k units in Nov-20 (+2.6% YoY).

**Discounting in M&HCVs has gone up by average 2-3% as OEM chase market share.**

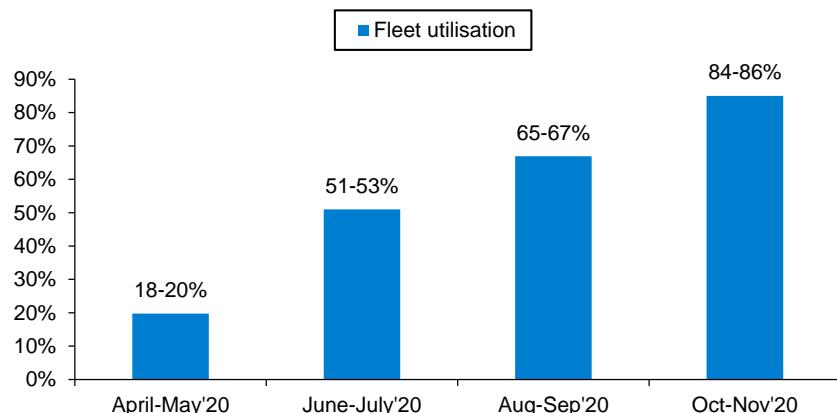
*CV industry is driven by replacement demand and in the past two years, we have seen reduction in replacements. With the improvement in sentiments and positive outlook for the economy, replacement demand is expected to pick up*

**Vinod Aggarwal, MD & CEO-VECV**

## CV: Initial signs of inquiries coming back in HCVs

- We note sequential improvement in inquiries and sales in HCV segment backed by healthy demand from construction (bulk goods like cement). Importantly the demand increase is led by both replacement (~70-80%) as well as new vehicle additions (20%).
- **Fleet operator's sentiments continue to improve as i) utilization level increase at ~90% now, ii) ~5% increase in freight rates in Nov (v/s Sep) and iii) improved financing availability (though not fully back).**
- **We note ~2-3% increase in discounts in November as OEMs chase market share in relatively weak demand scenario.** However, it's not at an alarming level as it remained almost nil in past 2 quarters.
- However, ICVs and LCVs segment continues to see traction with healthy demand from major end user industries (ex-textiles).

## Exhibit 4: Persistent increase in fleet utilization bode well for M&HCVs



Source: PL, Industry

## Tractor: Inventory filling to drive wholesales, demand +ve

- **We expect tractor sales to remain healthy** due to positive farm sentiments led by i) higher farm output (4-6% YoY) ii) better finance support (LTV ~95%) and iii) better cash flows with farmers (direct govt. transfers). However, the same was partially offset by limited inventory in some regions.
- **Our channel check suggests higher demand for 50HP+ segment** (10-15% higher v/s pre-COVID) led by higher usage of implements. However, the same is expected to decline going forward as construction activities have started picking up which actually require lower HP models.

## Exhibit 5: Valuation Summary

Company Names	Rating	CMP (Rs)	TP (Rs)	Sales (Rs bn)				EBITDA (Rs bn)				PAT (Rs bn)				EPS (Rs)				RoE (%)				PE (x)			
				FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E
Ashok Leyland	BUY	89	100	174.7	143.9	193.7	219.0	11.7	5.5	18.6	22.2	3.4	-2.0	9.3	10.9	1.2	-0.7	3.2	3.7	4.4	-2.8	13.0	13.6	76.1	-133.4	27.9	24.0
Bharat Forge	HOLD	513	439	80.6	70.1	92.9	106.4	11.1	7.9	15.5	19.2	4.1	2.4	9.4	11.7	8.8	5.1	20.2	25.2	7.8	4.5	16.4	17.7	58.2	99.8	25.4	20.3
Bajaj Auto	Hold	3,129	3,108	299.2	265.2	306.6	330.6	51.0	44.2	50.5	52.9	54.4	46.4	52.4	54.7	188.1	160.4	181.0	189.1	26.1	22.4	23.5	23.0	16.6	19.5	17.3	16.5
CEAT	Acc	1,125	1,223	67.8	67.1	79.2	87.1	7.2	7.7	9.4	10.7	2.6	2.8	3.1	3.5	64.5	69.8	76.6	86.5	9.2	9.4	9.5	9.9	17.4	16.1	14.7	13.0
Eicher Motors	Acc	2,549	2,598	91.5	90.7	111.4	125.8	21.8	18.8	28.2	33.9	18.3	14.3	22.5	27.0	67.0	52.6	82.6	99.1	19.3	13.6	18.8	19.2	38.1	48.5	30.8	25.7
Exide Industries	BUY	173	194	98.6	102.1	112.7	121.4	13.6	15.6	16.9	18.0	8.4	9.3	10.1	10.9	9.9	11.0	11.8	12.9	13.7	14.2	14.1	14.1	17.4	15.7	14.6	13.4
Hero Motocorp	Acc	3,025	3,282	288.4	297.3	329.0	351.4	39.6	37.7	45.3	50.1	31.0	27.5	34.6	38.7	154.6	137.6	173.0	193.3	22.9	18.9	22.1	22.5	19.6	22.0	17.5	15.6
Mahindra & Mahindra	BUY	729	826	454.9	455.5	515.4	577.2	58.0	63.9	64.5	73.8	21.9	39.7	42.2	47.9	18.4	33.3	35.3	40.2	6.4	11.2	11.0	11.6	39.7	21.9	20.6	18.1
Maruti Suzuki	BUY	6,994	7,642	756.1	739.9	830.3	900.8	73.0	74.4	96.0	117.8	56.5	58.7	76.4	94.2	187.1	194.2	253.0	311.8	11.9	11.9	14.8	17.1	37.4	36.0	27.6	22.4
Motherson Sumi	BUY	143	165	635.4	624.8	736.1	820.6	52.0	42.5	64.5	79.0	11.7	8.4	20.3	26.0	3.7	2.7	6.4	8.2	10.4	7.1	15.9	18.1	38.6	53.8	22.3	17.4
Tata Motors	HOLD	174	146	2,610.7	2,696.4	2,867.5	3,085.6	239.1	318.6	351.9	368.4	-90.9	31.6	127.3	133.9	-25.3	8.8	35.4	37.2	-14.8	4.9	17.5	15.6	-6.9	19.8	4.9	4.7
TVS Motors	Sell	475	386	164.2	158.1	179.2	193.6	13.5	13.6	16.7	18.0	6.2	5.9	8.3	9.3	13.0	12.5	17.5	19.6	17.7	15.5	19.2	18.5	36.5	38.1	27.0	24.3

Source: Company, PL

## Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	BUY	100	84
2	Bajaj Auto	Hold	3,108	3,006
3	Bharat Forge	Hold	439	500
4	CEAT	Accumulate	1,223	1,148
5	Eicher Motors	Accumulate	2,598	2,346
6	Exide Industries	BUY	194	162
7	Hero Motocorp	Accumulate	3,282	2,894
8	Mahindra & Mahindra	BUY	826	729
9	Maruti Suzuki	BUY	7,642	7,118
10	Motherson Sumi Systems	BUY	165	140
11	Tata Motors	Hold	146	136
12	TVS Motors	Sell	386	422

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<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly

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