

Demand largely sustains post the festive season...

...some cautiousness seen due to the second wave of COVID-19

"Last year, we sold around 210,000 units during the 31-32 day period (between Navaratri and Diwali). This year, the numbers (~234,000 units) are more because there was pent-up demand. Overall, the numbers have been very good. However, the Apr-Oct'20 period is still 20% down YoY as 1QFY21 was a total washout. We are clear that things are very unclear.

Car sales are very much related to GDP and per capita growth. We really don't know which way the economy will move. The sentiment factor is also very uncertain," Mr. Shashank Srivastava, Executive Director (Marketing & Sales), MSIL, said

- The festive season was reasonable with no major negative surprises. Demand after the festive season has been decent so far. Current discounts remain lower than last year. Inventory is lower than normal for PVs and Tractors, leaving headroom for higher wholesales. Nov'20 wholesales are expected to grow on a low base and to cater to demand from the festive season and inventory refilling (for PVs and Tractors).
- Our interaction with leading industry channel partners reflects optimism post the festive season. 2W inventory is currently slightly above normal levels of 35-50 days, while that for PVs is at minimal levels of 10-20 days (with a waiting of up to one month in fast-selling models). LCV demand continued to recover well and is now above last year's level. The infrastructure/construction sector is driving M&HCVs demand (~30% of total sales). Inquiries from haulage is improving, but conversions are low. Demand for Tractors continued to remain strong, with a growth in retail, which has a waiting period of 15-30 days. Overall consumer sentiment has improved, but the market remains cautious due to fears of a second wave of COVID-19.
- Wholesales in Nov'20 are expected to grow YoY for all segments (ex-M&HCV) due to sustaining demand, inventory refilling and normalizing supply-chain bottlenecks at the OEM level. Demand remains skewed towards semi-urban and rural markets for 2W/PVs. In Nov'20, wholesale volumes are estimated to grow at 19.6% for 2Ws on a low base, 12.6% for PVs due to sustaining demand and inventory refilling, and 6.5% for CVs on the back of LCV growth of 14%, but restricted by the ~5% decline in M&HCVs. Wholesale volumes for Tractors are expected to grow by 86.5% YoY on robust demand, the timing difference of Diwali in 2020 and a low base.
- 2Ws: Retail sales were flat to slightly negative during the entire festival period starting from the Navaratri to Diwali. For HMCL, their entire entry-level segment has performed well. For BJAUT, their value product — Pulsar125 — was the highest selling. Dealers are holding an inventory of 1-1.5 months. Bookings for the upcoming marriage season are lower than expected at the dealer-end. Royal Enfield (RE) has a waiting period of 1-1.5 months for its bikes, with the newly launched Meteor garnering a very good response. We expect restricted wholesales growth of ~10% for RE due to production loss on account of cyclone Nivar, 8.6% for BJAUT (7.5% growth in domestic 2W), 25% for HMCL and ~14% for TVSL.
- PVs: Overall PV retail sales during the festival period were better off than 2Ws. Demand is also seen sustaining post the festive season as there is a healthy number of bookings with dealers. MSIL is in a better position than peers due to its entry-level portfolio. MSIL, TTMT, and MM have a waiting period of around one month depending on the model. MM's retail sales were down due to product unavailability, whereas Thar has a waiting period of 30-35 weeks depending on the model. While sales in the marriage season are largely flat, dealers are cautious about demand going forward. Volumes are expected to grow by ~6% for MSIL and 15% for MM's UV (including pick-ups) to cater to sustained demand and inventory refilling.
- CVs: Sales have started showing signs of a recovery. Inquiries from the cargo segment have increased, but conversion is still low due to the uncertainty in demand sustainability after the festive season. Financiers have cautiously started approving LTV up to 80-85% (v/s 75-80% earlier) on a case-to-case basis. The majority of current sales driven are by the infrastructure/construction segment. M&HCV cargo has also

started recovering with an increase in capacity utilization. LCV and SCV demand has recovered to pre-COVID levels. Discounts on M&HCVs offered by OEMs have increased to 12-17% from 6-10% around two months back. We expect AL's wholesales to grow by 13.6% YoY (-12% for M&HCVs) and TTMT to grow by 3% (-5% for M&HCVs).

- **Tractors:** Demand remains encouraging due to good Kharif sowing and preference for farm mechanization. Both MM and ESC are operating at full capacity. Festival sales were encouraging for this segment. Sales remain skewed towards higher HP Tractors due to higher demand from the agriculture segment and minimum inventory (10-20 days) at the dealers end. We expect volumes to grow by 100%/50% for MM/ESC due to high demand, low base and inventory refilling.
- **Valuation and view:** While the festive season has augured well, with no major negative surprise, current demand and low inventory sentiment suggests higher wholesales in Dec'20. Valuations are reflecting a recovery during 2HFY21, leaving a limited margin for safety for any negative surprises. We prefer companies with: a) higher visibility in terms of demand recovery, b) strong competitive positioning, c) margin drivers, and d) balance sheet strength. MM and HMCL are our top OEM picks. Among auto component stocks, we prefer ENDU and MSS.

Snapshot of volumes for Nov'20

Company sales	YoY			MoM								Residual growth (%)
	Nov'20	Nov'19	Change (%)	Oct'20	Change (%)	FY21 YTD	FY20 YTD	Change (%)	FY21E	Growth (%)		
MSIL	1,59,738	1,50,630	6.0	1,82,448	-12.4	8,11,915	10,44,976	-22.3	14,12,401	-9.6	16.0	
MM	85,555	62,267	37.4	90,917	-5.9	4,57,050	5,69,025	-19.7	7,37,246	-5.2	34.1	
UV (incl. pick-ups)	39,052	33,958	15.0	40,703	-4.1	1,99,609	2,91,511	-31.5	3,54,270	-12.0	39.2	
Tractors	42,000	21,032	99.7	46,558	-9.8	2,47,461	2,24,635	10.2	3,39,654	12.5	19.3	
TTMT	52,774	41,124	28.3	52,132	1.2	240,332	324,984	-26.0	456,953	-3.5	46.0	
HCVs	9,417	9,913	-5.0	8,273	13.8	34,232	85,282	-59.9	92,038	-26.0	47.6	
LCVs	22,226	20,675	7.5	20,199	10.0	91,846	152,197	-39.7	181,273	-16.2	39.6	
CVs	31,643	30,588	3.4	28,472	11.1	126,078	237,479	-46.9	273,311	-19.8	42.6	
Cars	13,500	6,047	123.3	14,759	-8.5	73,282	45,647	60.5	118,926	64.7	71.7	
UVs	7,631	4,489	70.0	8,901	-14.3	40,972	41,858	-2.1	64,716	7.1	27.7	
HMCL	6,45,969	5,16,775	25.0	8,06,848	-19.9	38,30,926	46,50,363	-17.6	59,75,433	-5.9	26.0	
BJAUT	4,37,707	4,03,223	8.6	5,12,038	-14.5	24,46,185	32,87,196	-25.6	40,76,821	-11.7	22.8	
Total two-wheelers	3,90,093	3,43,446	13.6	4,70,290	-17.1	22,24,777	28,09,226	-20.8	35,81,895	-9.3	19.2	
Three-wheelers	47,614	59,777	-20.3	41,748	14.1	2,21,408	4,77,970	-53.7	4,94,925	-25.9	44.2	
AL	11,564	10,175	13.6	9,989	15.8	44,811	88,583	-49.4	1,09,809	-12.3	77.3	
CV (ex-LCV)	5,250	5,966	-12.0	4,588	14.4	18,795	54,631	-65.6	59,290	-24.6	69.0	
LCV	6,314	4,209	50.0	5,401	16.9	26,016	33,952	-23	50,519	8.3	93.0	
TVSL	3,10,906	2,66,582	16.6	3,94,724	-21.2	18,40,397	23,98,977	-23.3	29,50,566	-9.6	28.4	
EIM												
Royal Enfield	66,452	60,411	10.0	66,891	-0.7	3,41,131	4,82,553	-29.3	6,32,252	-9.2	36.4	
VECV	3,890	3,594	8.2	4,200	-7.4	18,386	32,050	-42.6	40,554	-16.8	33.0	
ESC	11,463	7,642	50.0	13,664	-16.1	67,718	61,796	9.6	1,00,641	17.0	35.9	

NOTES

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BUY	>=15%
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