ICICI direct Research

December 16, 2020

Rounded recovery broadens opportunity pie…

Domestic auto industry volumes have been on a steady mend in the months post lifting of lockdown restrictions. Manufacturing and distribution activities have been getting ramped up gradually since June 2020, in step with the rest of the economy. However, the impact of the pandemic on the supply chain continues to inhibit a complete return to production normalcy. Nevertheless, most automotive industry segments have reported successive improvement in offtake throughout June-November 2020 ***(Exhibit 1)*** –on the back of (i) initial bounce provided by pent-up aspect, followed by (ii) preference for affordable personal mobility & continued rural resilience. E-commerce & the need for last mile connectivity have served LCVs well throughout, with trucks being the latest category to rebound amid pickup in freight rates amid near normal economic activity domestically. On the flip side, segments related to public transport such as buses & passenger 3-Ws continue to lag heavily due to closure of schools & offices for most part, amid ongoing concerns over social distancing.

September and October 2020 wholesale dispatches were particularly strong for the 2-W and PV segments, with several OEMs reporting record volumes – partly reflecting an element of channel restocking in preparation for the festive period. Fears of excessive inventory build-up were allayed, however, as retail sales as per FADA for the 42-day period from Navratri-Diwali were quite healthy at ~95% of last year's levels. This was led by strong ~14% and ~49% growth in PV and tractors respectively, with 2-W volumes down ~6% YoY. On an overall basis, in June-November, YTD decline remains in double-digit territory for all automotive segments ***(Exhibit 2)***. PV is best placed at -10% followed by 2-W (-28%), CV (-52%) & 3-W (-68%). Tractors, however, are the clear outlier with ~35% YoY growth in this period.

Tractor OEMs lead the way…

In our auto OEM coverage universe, M&M's tractor division and Escorts reflect the segment's wide outperformance, with 8MFY21 volumes up 6% and 7.5% YoY, respectively. YTD prints at other OEMs are down in double-digit territory, with 2-W market leader Hero MotoCorp (HMCL) best placed among the rest courtesy ~50% exposure to the rural landscape (total volumes down ~19% YoY). PV bellwether Maruti Suzuki's (MSIL) volumes are down ~23% YoY while standalone Tata Motors (TML) volumes (PV & CV combined) are down 27%. Pure play CV maker Ashok Leyland (ALL) is the hardest hit, with total volumes down 50% YoY as of November.

Valuation & Outlook

Post the sharp run-up in sectoral heavyweights on the back of faster than anticipated demand recovery, especially in rural India, we downgrade some players while we incrementally retain positive stance on players centred around urban demand pick-up and CV space that is on the cusp of a cyclical recovery. **Consequently, we downgrade Hero MotoCorp, Escorts, Apollo Tyres, Balkrishna Industries (from BUY to HOLD) and Maruti Suzuki India (from REDUCE to SELL). We retain BUY on Bajaj Auto, Tata Motors, M&M and Ashok Leyland in the OEM pack. On the ancillary front, we retain BUY on Minda Industries courtesy its ability to outperform due to rising kit value and premiumisation.** We maintain **HOLD** rating on Eicher Motors, Bharat Forge, Motherson Sumi and Exide Industries. Overall, we remain mindful of accumulating margin headwinds in H2FY21E for the auto pack in the form of higher input prices (metals, rubber) and await policy outcome on scrappage policy as well as contours on the recently announced PLI scheme for the automobile sector (~₹ 57,000 crore for automobile, auto components sector and ~₹ 18,000 crore for advance cell battery over a five-year period).

Sectoral View: Neutral

Recommendation matrix (new)

Company	CMP	Rating	TP	Upside (%)
Maruti Suzuki	7,770	Sell	6,450	-17%
Hero MotoCorp	3,110	Hold	3,480	12%
Escorts	1,335	Hold	1,500	12%
Eicher Motors	2,475	Hold	2,650	7%
Bajaj Auto	3,270	Buy	3,920	20%
Ashok Leyland	95	Buy	120	26%
M&M	720	Buy	870	21%
Tata Motors	180	Buy	210	17%
Minda Ind	380	Buy	440	16%
Bharat Forge	550	Hold	550	0%
Balkrishna Ind	1,630	Hold	1,770	9%
Apollo Tyre	190	Hold	200	5%
Motherson Sumi	160	Hold	165	3%
Exide Ind	195	Hold	200	3%

Recommendation matrix (old)

Company	CMP	Rating	TP	Upside (%)
Maruti Suzuki	7,115	Reduce	6,335	-11%
Hero MotoCorp	2,900	Buy	3,450	19%
Escorts	1,220	Buy	1,460	20%
Eicher Motors	2,500	Hold	2,600	4%
Bajaj Auto	3,000	Buy	3,570	19%
Ashok Leyland	84	Buy	100	19%
M&M	620	Buy	760	23%
Tata Motors	140	Buy	165	18%
Minda Ind	350	Buy	410	17%
Bharat Forge	500	Hold	490	-2%
Balkrishna Ind	1,450	Buy	1,700	17%
Apollo Tyre	148	Buy	175	18%
Motherson Sumi	140	Hold	150	7%
Exide Ind	170	Hold	180	6%

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Sector Update

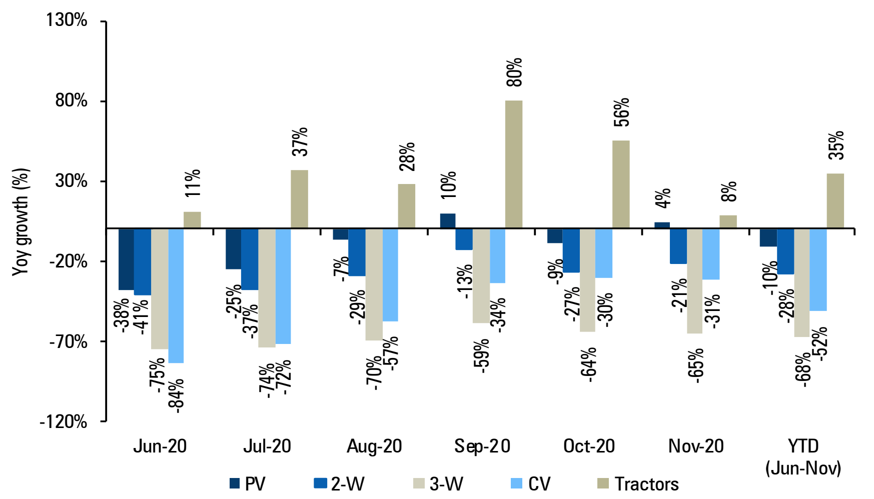
ICICI Securities – Retail Equity Research

Exhibit 1: Segment-wise wholesale domestic volume growth rates during June–November 2020

Segment	Jun-20		Jul-20		Aug-20		Sep-20		Oct-20		Nov-20	
	YoY	MoM	YoY	MoM	YoY	MoM	YoY	MoM	YoY	MoM	YoY	MoM
Passenger Vehicles (PV)	(52.2)	NA	(3.9)	52.1	14.2	18.1	35.7	51.7	14.2	(5.3)	4.8	(14.5)
Passenger Cars (PC)	(56.2)	NA	(12.0)	56.7	14.1	21.4	40.4	59.4	9.7	(8.1)	(2.8)	(17.9)
Utility Vehicles (UV)	(41.2)	NA	13.9	40.9	15.5	14.7	30.8	42.5	20.5	(2.2)	17.6	(8.8)
Vans	(74.6)	NA	(18.9)	120.0	3.8	8.6	13.7	29.6	29.2	12.2	8.2	(16.1)
2-W	(38.6)	NA	(15.2)	26.4	3.0	21.7	11.6	18.6	16.9	11.0	13.4	(22.1)
Scooters	(47.4)	NA	(36.5)	23.9	(12.3)	36.7	0.1	21.8	1.8	6.2	9.3	(14.9)
Motorcycles	(35.2)	NA	(4.9)	26.4	10.1	16.2	17.3	18.6	23.8	13.0	14.9	(25.8)
Mopeds	(22.2)	NA	14.1	43.8	25.6	20.1	20.3	(1.7)	33.4	16.5	22.9	(11.9)
CV	(84.8)	NA	NA	NA	NA	NA	(20.1)	NA	NA	NA	NA	NA
M&HCV	(94.1)	NA	NA	NA	NA	NA	(48.9)	NA	NA	NA	NA	NA
Passenger i.e. buses	(97.7)	NA	NA	NA	NA	NA	(92.2)	NA	NA	NA	NA	NA
Goods i.e. trucks	(93.5)	NA	NA	NA	NA	NA	(40.4)	NA	NA	NA	NA	NA
LCV	(79.7)	NA	NA	NA	NA	NA	(8.6)	NA	NA	NA	NA	NA
Passenger	(94.6)	NA	NA	NA	NA	NA	(64.1)	NA	NA	NA	NA	NA
Goods	(77.7)	NA	NA	NA	NA	NA	(3.2)	NA	NA	NA	NA	NA
3-W	(80.1)	NA	(77.2)	23.6	(75.3)	14.2	(71.9)	44.9	(60.9)	40.5	(57.6)	(9.8)
Passenger	(86.7)	NA	(85.7)	22.1	(84.3)	17.9	(79.6)	8.2	(70.7)	43.1	(69.8)	(15.2)
Goods	(54.2)	NA	(30.1)	25.2	(21.3)	10.1	(27.9)	28.3	(10.9)	36.2	1.3	(0.1)
Tractors	22.4	53.7	38.5	-32.0	74.7	2.5	28.3	67.8	7.7	6.1	NA	NA

Source: SIAM, ICICI Direct Research; Note – All CV related growth rates are for the quarter ended June 2020 and September 2020 on YTD basis

Exhibit 2: Segment-wise retail volume growth in June-November



Source: FADA, ICICI Direct Research

For FY21E, we largely build in a volume decline of ~15% for the 2-W & PV category, ~30% for the CV space and a growth of ~10% in the tractor segment.

For FY22E, expect ~20% volume growth in the PV as well as 2-W segment, ~10% volume growth in the tractor segment & >30% volume growth in the CV space (amid sharp decline from the peak)

Exhibit 3: OEM-wise volumes thus far in FY21 and forward estimates

OEM	YoY						8MFY21		Estimates (lakh units)		
	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Lakh units	YoY	FY21E	FY22E	FY23E
MSIL	(54.0)	(1.1)	17.1	30.8	18.9	1.7	8.1	(22.9)	*13.3*	*15.9*	*17.5*
TML (standalone)	NA	NA	NA	26.3	NA	20.7	2.4	(27.0)	*4.2*	*5.6*	*6.2*
M&M (automotive)	(54.5)	(36.0)	(15.7)	(17.1)	(14.5)	3.6	2.1	(39.4)	*3.4*	*4.2*	*4.6*
M&M (tractors)	10.4	27.1	65.1	17.2	2.5	55.6	2.4	6.0	*3.3*	*3.7*	*3.9*
HMCL	(26.9)	(4.0)	7.6	16.9	34.6	14.4	37.8	(18.8)	*55.0*	*67.0*	*72.0*
BAL	(31.3)	(32.9)	(8.7)	9.8	10.5	4.7	24.3	(26.1)	*38.2*	*46.4*	*50.1*
EML	(34.8)	(25.6)	(5.2)	0.9	(7.0)	5.6	3.4	(29.9)	*5.9*	*7.1*	*8.0*
ALL	(81.3)	(56.3)	(31.5)	(5.0)	1.3	4.8	0.4	(50.4)	*0.9*	*1.3*	*1.5*
Escorts	21.1	9.5	80.1	9.2	2.3	33.0	0.7	7.5	*0.9*	*1.0*	*1.1*

Source: Company, ICICI Direct Research; MSIL: Maruti Suzuki India, TML: Tata Motors; HMCL: Hero MotoCorp, BAL: Bajaj Auto; EML: Eicher Motors, ALL: Ashok Leyland

I-Direct OEM coverage universe

Maruti Suzuki (MSIL)

MSIL is the industry leader in the PV segment domestically with market share >50% (FY20). The company has market leadership in all three sub-segments i.e. passenger cars, UVs and vans; with small cars market share at >60% (FY20). MSIL has been a beneficiary of the move towards personal mobility in the post-Covid months. Continuance of encouraging prints post November needs to be watched, especially given increasing competition in the UV category to chief offerings like Brezza and Ertiga (UV market share has reduced from 24.9% in FY20 to 22.9% as of H1FY21). MSIL has continuously disappointed on the EBITDA margin front in recent times and continues to trade at highly stretched valuations i.e. ~>33x P/E on FY23E numbers (above historical averages). Therefore, we continue to remain cautious on the stock and downgrade it from REDUCE to **SELL** with a revised target price of ₹ 6,450, valuing it at 28x P/E on FY23E EPS of ₹ 230.6/share.

MSIL price performance

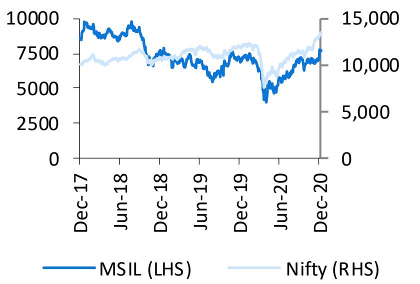


Exhibit 4: Financial summary for MSIL

Key Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	86,020.3	75,610.6	62,392.5	72,577.4	81,591.7	2.6%
EBITDA	10,999.3	7,302.6	5,051.1	7,621.9	9,128.3	7.7%
EBITDA Margins (%)	12.8	9.7	8.1	10.5	11.2	
Net Profit	7,500.6	5,650.6	3,989.1	5,793.9	6,966.1	7.2%
EPS (₹)	248.3	187.1	132.1	191.8	230.6	
P/E	31.3	41.5	58.8	40.5	33.7	
RoNW (%)	16.3	11.7	7.8	10.6	11.7	
RoIC (%)	59.9	24.4	12.1	26.9	35.2	

Source: Company, ICICI Direct Research

Hero MotoCorp (HMCL)

HMCL is the world's largest 2-W manufacturer by volume and the domestic 2-W industry leader with market share at ~36% as of FY20. In the motorcycle sub-segment, it commands a market share of >50% courtesy rural geographies forming ~50% of domestic volumes. Need for affordable personal mobility in the post Covid period had led to healthy market share gains for HMCL (retail market share improved to ~40% at one point). However, with urban pockets now rebounding from lows amid reduced pandemic restrictions, usual market share readings should prevail. Nevertheless, rural demand continues to remain supportive for HMCL, as witnessed in the robust festive period retail sales of ~14 lakh units (down just ~2% YoY on a like-to-like basis). We expect some price hikes to be needed in coming months to transmit upcoming cost inflation and thereby protect margins. HMCL possesses a superlative B/S with >20% return ratios, healthy CFO, FCF yields and robust dividend payouts (~50%). However, given the sharp stock price increase in recent months, we see limited upside potential from CMP and await time/price correction before turning positive on the counter again. We downgrade HMCL from BUY to **HOLD**, valuing it at ₹ 3,480 i.e., 19x P/E on FY23E EPS of ₹ 183.1/share.

HMCL price performance

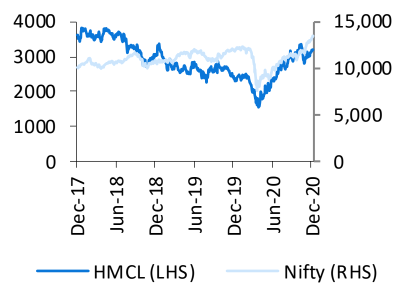


Exhibit 5: Financial summary for HMCL

Key Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	33,650.5	28,836.1	29,077.2	35,444.3	38,632.8	10.2%
EBITDA	4,929.8	3,958.0	3,394.2	4,428.6	5,003.0	8.1%
EBITDA Margins (%)	14.6	13.7	11.7	12.5	13.0	
Net Profit	3,384.6	3,633.3	2,468.5	3,230.3	3,657.2	0.2%
Normalised Net Profit	3,384.6	3,202.6	2,468.5	3,230.3	3,657.2	4.5%
EPS (₹)	169.5	181.9	123.6	161.8	183.1	
P/E	18.4	17.1	25.2	19.2	17.0	
RoNW (%)	26.3	22.7	16.0	19.0	19.4	
RoCE (%)	32.0	21.3	16.6	20.6	21.3	

Source: Company, ICICI Direct Research

Mahindra & Mahindra (M&M)

The domestic tractor industry is going through a period of robust demand courtesy positive rural sentiment and cashflows on account of (i) lower pandemic incidence, (ii) record Kharif procurement, (iii) above average monsoons in 2020 and (iv) sustained government spends towards agriculture and rural infrastructure. Healthy water table levels in M&M's strong markets i.e. South and West India along with longer term demand drivers in the form of government's focus on doubling farm incomes and underpenetrated nature of domestic farm mechanisation industry are medium to long-term positives for the industry, while M&M as the market leader (>41% market share as of FY20) stands to benefit. Healthy tractor segment performance is set to continue to lead to improvement in blended ASPs and margins also, given M&M's industry-leading ~20% tractor EBIT margin profile. Apart from continued traction for tractors, M&M's renewed focus on capital allocation is a structural positive. Gauging the importance of healthy capital efficiency in creating long term value for shareholders, M&M as a group is targeting ~18% RoE in next few years, specifically by reviewing & withdrawing support to subsidiaries & associates going through troubled times. The company's performance on the automotive side (UVs in particular) is a key monitorable. We retain our **BUY** rating on the stock and value M&M at ₹ 870 on SOTP basis, valuing its core automobile business at 7x EV/EBITDA on FY23E numbers and assigning 25% holding company discount to its other investment in listed as well as unlisted entities.

M&M price performance

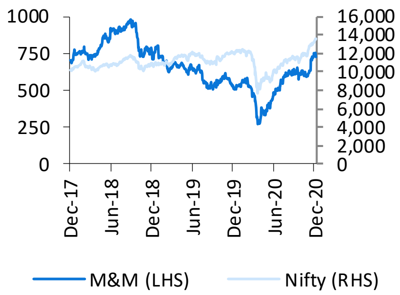


Exhibit 6: Financial summary for M&M

Key Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20 -23E)
Net Sales	53,614.0	45,487.8	42,635.5	51,437.7	57,295.7	8.0%
EBITDA	6,639.6	5,798.0	5,861.8	7,180.3	8,141.4	12.0%
EBITDA Margins (%)	12.4	12.7	13.7	14.0	14.2	
Net Profit	4,796.1	1,330.4	2,722.3	4,780.9	5,537.5	60.9%
Adjusted Net Profit	4,818.6	2,190.4	3,464.2	4,780.9	5,537.5	36.2%
EPS (₹)	40.2	11.2	22.8	40.1	46.4	
P/E	17.9	64.6	31.6	18.0	15.5	
RoNW (%)	14.1	6.4	9.5	11.9	12.5	
RoCE (%)	12.3	8.8	8.4	10.5	11.5	

Source: Company, ICICI Direct Research

Exhibit 7: SOTP based valuation matrix for M&M

Valuation Matrix (SOTP)					
Automotive Business (UV+PV+CV+Tractors)		**₹crore**		**₹/share**	**Remark**
Standalone business					
FY23E EBITDA		8,141			
Assigning EV/EBITDA Multiple of 7x		7.0			
Enterprise Value		56,990		478	
Net Debt (FY23E)		(10,091)		-85	
Value of Standalone Business (A)		**67,081**		**562**	
Mahindra Vehicle Manufacturers Ltd					
Investment made by M&M (wholly owned subsidiary)		4,065			
Assigning 0.5x P/B on investment value		0.5			
Value of MVML attributable to M&M (B)		**2,033**		**17**	
Total value of automobile business (C= A+B)				**580**	
Value of Investments (listed companies)	**M&M stake (%)**	**Estimated value ₹ crore**	**Contribution to M&M ₹crore**	**₹/share**	**Remark**
Tech Mahindra	26	89,374	23,290.73	195	Current market cap
M&M Financial Services	51	21,376	10,944	92	Current market cap
Mahindra Life space	52	1,719	886	7	Current market cap
Mahindra CIE	11	5,875	672.0	6	Current market cap
Mahindra Holidays & Resorts	67	2,843	1913.3	16	Current market cap
Other subsidiaries & investments			8,571	72	
Total Value of subsidiaries & associates (D)			**46,277.0**	**388**	
Value of investments post 25% holding company discount (E = 0.75*D)				**290**	
M&M Target Price (value of equity per share , C+E)				**870**	

Source: ICICI Direct Research

Tata Motors (TML)

Tata Motors is a leading automobile manufacturer with market leadership in the domestic CV space (market share >40%) and prominent presence in the luxury car market overseas through its subsidiary Jaguar Land Rover i.e. JLR. The company is incrementally gaining market share in the domestic PV space though impressive product launches like Altroz and encouraging response to the refreshed BS-VI portfolio. JLR's recent launches like Defender, Evoque and Discovery Sport are also performing well. TML has taken cognizance of the increasing debt levels at the company amid deteriorating operating performance and recurring capex spend on new technologies, including electrification. It plans to reduce automotive debt to near zero levels in the next few years (~₹ 48,000 crore as of FY20) and be FCF positive from FY22E onwards, which, we believe, will drive value creation for its shareholders. We are positive on the company's longer term strategic direction (electrification and deleveraging) and retain our **BUY** rating on TML valuing it at ₹ 210 on SOTP basis i.e., 8x EV/EBITDA to domestic standalone operations on FY23E numbers, 3.25x EV/EBITDA to JLR on FY23E numbers and 2x P/B (FY20) to its other long-term investments. Brexit outcome in January 2021 is a short-term monitorable.

TML price performance

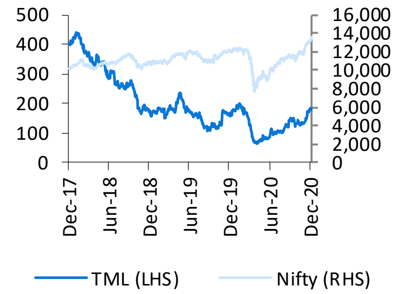


Exhibit 8: Financial summary for TML

Key Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	3,01,938.4	2,61,068.0	2,32,578.7	2,78,641.9	3,10,797.7	6.0%
EBITDA	29,794.8	23,914.1	27,947.6	35,591.0	41,995.8	20.6%
EBITDA Margins (%)	9.9	9.2	12.0	12.8	13.5	
Net Profit	(28,724.2)	(11,975.4)	(6,354.3)	2,338.5	6,620.2	NM
EPS (₹)	(79.8)	(33.3)	(16.6)	6.1	17.3	
P/E	(2.3)	(5.4)	(10.8)	29.5	10.4	
RoNW (%)	(47.3)	(18.7)	(10.6)	3.7	9.6	
RoCE (%)	3.7	1.3	2.8	6.4	9.4	

Source: Company, ICICI Direct Research

Exhibit 9: SOTP-based valuation for TML

Particulars	Parameters	EBITDA	Multiple	Per Share Equity Value
Tata Motors Core business	FY23E EV/EBITDA	5,965	8.0	87
JLR	FY23E Adj EV/EBITDA	28,064	3.3	112
Other Investments	2x P/B on FY20	2,047	2.0	11
Total value per share				**210**

Source: ICICI Direct Research

Bajaj Auto (BAL)

BAL is a prominent player in the domestic 2-W industry with market share of ~12% as of FY20. It is also the leading 3-W player domestically and is also the largest exporter in the said category. In recent months, BAL's domestic operations are underperforming vis-à-vis exports amid (i) faster recovery in key international markets of Africa, Latin America and others and (ii) supply side issues in the recent past due to spread of Covid-19 infection in the Pune belt, its main manufacturing as well as supply side hub. Nevertheless, BAL has realised cost efficiencies and has also been a beneficiary of rupee depreciation, with reported operating margins at industry-leading levels. With urban economic activity gaining traction, recent demand challenges faced by the higher margin 3-W segment on account of apprehensions over social distancing are likely to fade away leading to a sharp rebound in 3-W sales volume, going forward. With Pulsar as a popular urban brand in the motorcycle segment domestically and likely bottom in place in the 3-W segment, we retain our **BUY** rating on the stock, valuing it at ₹ 3,920 on SOTP basis i.e. 18.5x P/E on FY23E EPS (₹ 207.3) for core automobile business and 2x P/B on its investment in KTM. BAL can also be a potential beneficiary of recently announced PLI scheme for the auto sector given its positioning as the leading exporter from India (share of revenues at ~40% as of FY20).

BAL price performance

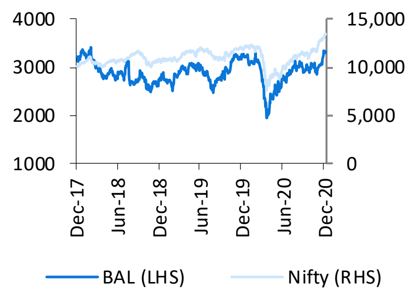


Exhibit 10: Financial summary for BAL

Key Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	30,250.0	29,918.6	26,349.9	33,181.6	37,051.1	7.4%
EBITDA	4,982.0	5,096.2	4,456.4	5,874.0	6,807.0	10.1%
EBITDA Margins (%)	16.5	17.0	16.9	17.7	18.4	
Net Profit	4,675.1	5,100.0	4,125.0	5,215.6	5,999.5	5.6%
EPS (₹)	161.6	176.2	142.5	180.2	207.3	
P/E	20.2	18.6	22.9	18.1	15.8	
RoNW (%)	19.9	25.6	18.5	20.7	21.0	
RoCE (%)	21.1	23.9	24.1	27.3	27.7	

Source: Company, ICICI Direct Research

Exhibit 11: Valuation matrix for BAL

SOTP Valuation	Estimated value	Per share (₹)	Remark
Core Business			
FY23E EPS (₹)	207.3		
Multiple (x)	18.5		
Value per share (₹)		**3,835**	
Stake in KTM (48%)			
KTM value derived back to Bajaj (₹ crore)	2440		2x of Invested Capital (₹ 1220 crore)
Value per share		**85**	
Total Value per Share (₹)		**3,920**	

Source: ICICI Direct Research

Ashok Leyland (ALL)

Ashok Leyland is a pure play CV manufacturer with a healthy market share in the M&HCV category (~32%) and presence across sub-segments i.e., trucks, buses and LCVs. The domestic CV space has been grappling with a confluence of demand side and supply side issues from FY20 onwards (~18 months of decline), such as overcapacity (due to revised axle load norms), slowing economic activity, tighter financing, switchover to BS-VI norms and the ongoing Covid crisis. However, the LCV segment has recovered smartly over the past few months amid sustained demand for last mile connectivity, while the truck outlook is improving given the pace of awarding of road construction and higher freight movement. The bus outlook remains muted due to public transport aversion and closure of schools and offices. Thus, we believe the worst of the domestic CV demand slump is largely behind us – which is set to benefit ALL, going forward. The company has ambitious plans to become a top 10 global CV manufacturer in the future, with its recent product launches geared towards tapping exports as a part of its vision (both modular programme, AVTR, and new LCV platform, Phoenix, offer left hand drive capabilities). Bada Dost launched under Phoenix expands addressable market from <35% earlier to >60%. With CV cycle on the cusp of cyclical recovery, we retain our **BUY** rating on the stock, valuing it at ₹ 120 using SOTP valuation methodology i.e. core CV business at 12x EV/EBITDA (FY23E) and incorporates 25% holding company discount to 1.5x P/B to its long-term investments viz. Hinduja Leyland Finance (HLF).

ALL price performance

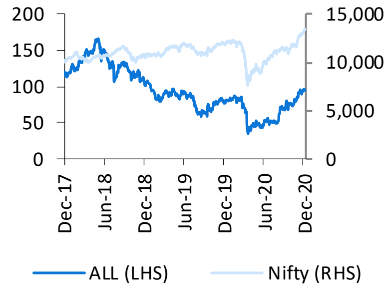


Exhibit 12: Financial summary for ALL

Key Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	29,055.0	17,467.5	14,151.0	21,027.0	26,179.9	14.3%
EBITDA	3,135.7	1,173.6	689.5	1,887.4	2,747.1	32.4%
EBITDA Margins (%)	10.8	6.7	4.9	9.0	10.5	
Net Profit	1,983.2	239.5	(186.4)	715.7	1,368.7	77.8%
EPS (₹)	6.8	0.8	(0.6)	2.4	4.7	
P/E	14.1	116.4	(149.6)	39.0	20.4	
RoNW (%)	24.3	4.7	(2.6)	9.5	16.2	
RoCE (%)	25.7	4.5	(0.0)	9.5	15.8	

Source: Company, ICICI Direct Research

Exhibit 13: Valuation matrix for ALL

SOTP	
Target EV/EBITDA (x)	**12.0**
EBITDA (FY23E)	2,747.1
Enterprise Value (₹ Crore)	32,965.1
Net Debt (₹ crore)	1,542.3
Target Market cap Core business (₹crore)	31,422.8
Value/Share (A)	**107**
Strategic Investments FY23E (₹ crore)	3,269.6
P/BV(x)	1.5
Total Value/Share post applying 25% Holdco. Discount (B)	**13**
Price target (₹, A+B)	**120**

Source: ICICI Direct Research

Eicher Motors (EML)

Royal Enfield (RE) remains an aspirational purchase with undiminished brand equity (consistent >90% market share in >250 cc motorcycle segment). Post-Covid volume prints have been under pressure, however, amid (i) short-term pressures on discretionary spends and (ii) supply side disruptions in its manufacturing and value chain belt on account of the pandemic. Nevertheless, order book remains healthy (~1.25 lakh units as of November), with supply de-bottlenecking holding the key to quicker volume uptick. The company has continued to innovate on the distribution front over the past year, with small format studio stores (total count at > 1,700) adding to regular full format stores domestically and the Make It Yours (MYI) app being a first of its kind digital initiative that is witnessing good customer response. EML's RE exports traction (led by 650 Twins) is a factor to watch in relation to blended realisations and profitability. The company's financials remain strong (cash surplus B/S, double digit return ratios) but we await a firmly positive rebound in volumes. We maintain **HOLD** on EML, valuing it at ₹ 2,650 on SOTP basis, 30x P/E to RE business on FY23E EPS & 20x P/E to its CV business (VECV; 54.4% stake) on FY23E numbers.

EML price performance

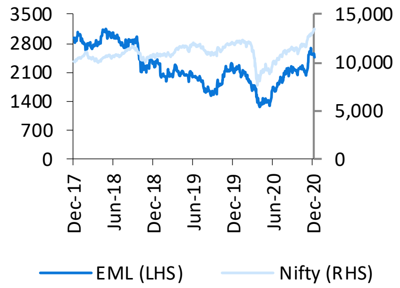


Exhibit 14: Financial summary for EIM

Key Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	9,797.1	9,153.6	8,281.6	10,196.9	11,919.7	9.2%
EBITDA	2,903.1	2,180.3	1,745.7	2,391.1	2,977.3	10.9%
EBITDA Margins (%)	29.6	23.8	21.1	23.4	25.0	
Net Profit	2,202.8	1,827.5	1,269.1	1,914.6	2,458.1	10.4%
EPS (₹)	80.8	67.0	46.6	70.2	90.2	
P/E	30.6	36.9	53.2	35.2	27.4	
RoNW (%)	24.8	18.3	11.6	15.3	17.1	
RoCE(%)	27.8	17.3	11.8	15.2	16.9	

Source: Company, ICICI Direct Research

Exhibit 15: Valuation matrix for EIM

	Amount	Remarks
Two-wheeler business-Royal Enfield		
FY23E EPS (₹)	85	
Target PE multiple(x)	30.0	Valued RE business at 30x P/E
Per share value (₹)	2,550	
Target market cap (₹ crore)	69,526	
CV business-VECV		
FY23E PAT (₹ crore)	257	
Target PE multiple(x)	20.0	Valued VECV business at 20x P/E
Target market cap (₹ crore)	5,133	
Contribution towards EML	0.54	EML has 54.4% stake in VECV
Target market cap towards EML (₹ crore)	2,792	
Per share value-VECV Eicher (₹)	100	
Total target market cap (₹ crore)	72,318	
Per share value (₹)	**2,650**	

Source: Company, ICICI Direct Research

Escorts

Escorts is a leading farm machinery player domestically with ~11% tractor market share. It derives ~77% of its topline from the tractor segment with the rest being contributed by construction equipment (~15%) and Railways segment (~8%). We expect ongoing positivity in the domestic tractor industry to continue over the medium-term courtesy strong rural cashflows (remunerative MSPs, record Kharif production, healthy groundwater levels, continued government support). The industry, as a whole, is seen posting double-digit growth for FY21E, with Escorts volumes for 8MFY21 up 7.5% YoY. Post on-boarding of Kubota Corporation (~10% stake in the company), it is also well poised to penetrate further the export markets, with Escorts' own tractor capacity set to increase to 1.5 lakh units per annum from ~1.15 lakh units per annum at present. Strong demand offtake is set to be accompanied by a rise in blended profitability courtesy tractor EBIT margins improving to 17-18% on a sustainable basis, going forward, riding on mix improvement and cost actions. Pick-up in infrastructure & construction activity along with revival of government spends also boost the outlook for Escorts' CE division (~36% market share in cranes). We maintain our constructive view on Escorts. However, with peak operating margins in the recent past and recent uptick in stock price, we downgrade the stock from BUY to **HOLD** with a revised SOTP-based target price of ₹ 1,500 i.e. 16.5x P/E to its core business on FY23E EPS of ₹ 81 and ascribe 30% holding company discount to treasury shares on its books. Long term plan with Kubota on-board especially in the field of farm mechanisation will be a medium term key monitorable.

Escorts price performance

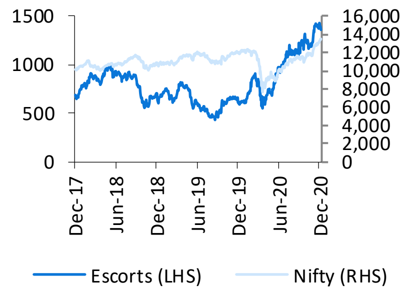


Exhibit 16: Financial summary for Escorts

Key Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	6,196.4	5,761.0	6,126.0	7,022.4	7,833.8	10.8%
EBITDA	733.3	675.8	919.4	1,061.4	1,198.8	21.1%
EBITDA Margins (%)	11.8	11.7	15.0	15.1	15.3	
Net Profit	484.9	485.6	729.1	870.2	991.4	26.9%
EPS (₹)	39.6	39.6	59.5	71.0	80.9	
P/E	33.8	33.7	22.4	18.8	16.5	
RoNW (%)	15.6	14.2	14.0	14.5	14.3	
RoCE (%)	19.3	16.2	15.3	15.3	14.9	

Source: Company, ICICI Direct Research

Exhibit 17: Valuation matrix for Escorts

Particulars	Amount (₹)
FY23E EPS (₹/share, A)	80.9
P/E Multiple (x, B)	16.5
Value of Base Business (C =A*B)	**1335**
No of Treasury Shares (crore)	2.1
Current Market Price (₹/share)	1,335
Value of Investments (₹ crore)	2,864
Holding company discount (%)	30
Revised value of Investments (₹ crore)	2,005
Contribution per share (₹/share, D)	**164**
Target Price (C+D)	**1500**
Potential Upside (%)	12

Source: Company, ICICI Direct Research

I-Direct ancillary coverage universe

Minda Industries (MIL)

MIL is a leading domestic-oriented auto ancillary with nearly equal exposure to the 2-W & 4-W segments. MIL's legacy businesses of switches, lighting and horns formed ~72% of consolidated revenues in FY20 combined, with newer segments such as light metal technology (including alloy wheels) and sensors & controllers forming the rest. In terms of channel mix, OEMs constitute ~90% of sales with the remainder contributed by aftermarket and exports. MIL has a demonstrated history of faster than industry growth courtesy increasing wallet share with existing clients, new customer additions, acquisitions and introduction of new products that meet premiumisation (e.g. alloy wheels, LED lighting) or regulatory needs (e.g. air bags, telematics solutions, etc.). MIL's product profile & client diversification is set to given another leg up over the near to medium term once the proposed merger with seating solutions provider Harita Seating Systems gets necessary approval from authorities. Higher pace of OEM ramp-up post Covid is set to rub off positively on MIL, with encouraging management commentary around sustainability of recent margin print in coming times coupled with the company coming out of a lumpy capex cycle making MIL our top pick in the auto ancillary pack. Accordingly, we maintain **BUY** on MIL with a revised target price of ₹ 440, i.e. 30x P/E on FY23E EPS of ₹ 14.7.

MIL price performance

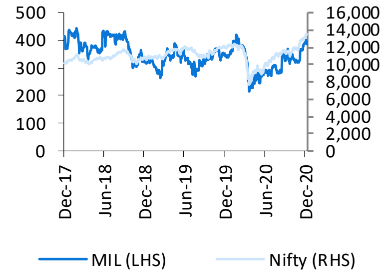


Exhibit 18: Financial summary for MIL

Key Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	5,908	5,465	5,432	6,585	7,399	10.6%
EBITDA	725	619	624	840	999	17.3%
EBITDA Margins (%)	12.3	11.3	11.5	12.8	13.5	
Net Profit	286	155	190	307	418	39.2%
EPS (₹)	10.9	5.9	6.7	10.8	14.7	35.6%
P/E	34.9	64.3	56.8	35.1	25.8	
RoNW (%)	19.0	10.3	9.4	14.2	16.3	
RoCE (%)	15.7	9.1	7.9	12.3	15.2	

Source: Company, ICICI Direct Research

Bharat Forge (BFL)

BFL is a leading forging player with exposure to global as well as domestic CV cycle, industrial applications (including oil & gas) as well as PV segment (including aluminium die-casting). In our opinion, the worst of the muted operational performance of BFL is behind us primarily due to the following factors - (i) domestic CV space is on the cusp of cyclical recovery (industry down ~>50% in FY21E from its peak of FY19, with outlook for trucks and LCVs improving), (ii) improved new order readings of Class 8 trucks with November 2020 print coming in at ~53,000 units (~3x YoY, up ~30% MoM), and (iii) recent increase in crude prices, which aids outlook for international drilling activity. Amid these positives as well as likely indigenisation of defence procurement domestically, the stock has undergone a substantial run-up in recent months, largely factoring in the optimism. We do not see consolidated return ratios entering double-digit territory before FY23E. Hence, we continue to assign **HOLD** rating to the stock, valuing it at ₹ 550. i.e. 30x P/E on FY23E EPS of ₹ 18.3.

BFL price performance

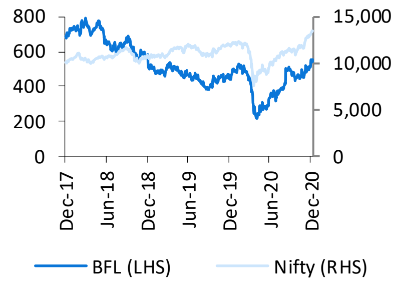


Exhibit 19: Financial summary for BFL

Key Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	10,145.7	8,055.8	5,808.1	7,509.2	9,052.8	4.0%
EBITDA	2,055.6	1,114.8	609.8	1,224.0	1,692.9	14.9%
EBITDA Margins (%)	20.3	13.8	10.5	16.3	18.7	
Net Profit	1,032.6	349.2	37.2	489.9	851.0	34.6%
EPS (₹)	22.2	7.5	0.8	10.5	18.3	
P/E	24.8	73.3	NM	52.3	30.1	
RoNW (%)	19.1	7.8	0.8	8.8	13.8	
RoCE (%)	15.5	5.6	0.3	5.9	9.8	

Source: Company, ICICI Direct Research

Exide Industries (EIL)

EIL is the leader in the domestic oligopolistic lead acid battery market, which finds major application in automobiles across vehicle categories, telecom towers, UPS and other industrial applications. It realises ~60-70% demand from the replacement market, which is seeing healthy demand prospects and is long lasting in nature, while the remaining ~30-40% is constituted by OEM/institutional sales that have been sluggish in the recent past (FY20-21E). With OEM sales set to improve as Covid concerns abate and domestic economy returns to normalcy, we expect sales prospects of EIL to be healthy, going forward, in FY22E. Its quarterly performance, however, has lagged its peer in the recent past, thereby indicating likely loss of some market share. Still, it remains better placed with regards to technological disruption posed by the advent of lithium-ion batteries. EIL has already set up an assembly plant with its Swiss partner in Gujarat and has plans to manufacture battery cells in the future. Lead and lead alloys are key inputs for the company, forming >70% of the value of raw material consumed. Hence, with recent uptick in metal prices, we expect EBITDA margins to taper down sequentially, going forward. We continue to assign **HOLD** rating to the stock, valuing it at ₹ 200 using SOTP valuation methodology valuing the base battery business at ₹ 150 i.e. 15x P/E on FY23E EPS of ₹ 10/share and ₹ 50 to its insurance and smelting operations.

EIL price performance

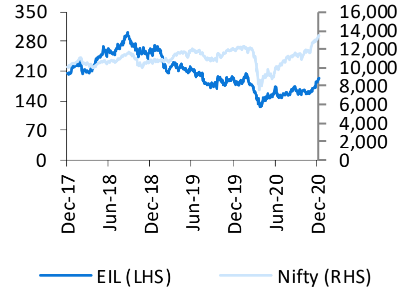


Exhibit 20: Financial summary for EIL

Key Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-FY23E)
Net Sales	10,588.3	9,856.7	9,586.6	11,044.0	11,313.0	4.7%
EBITDA	1,411.3	1,365.0	1,190.2	1,434.1	1,527.9	3.8%
EBITDA Margins (%)	13.3	13.8	12.4	13.0	13.5	
Net Profit	844.0	825.5	619.4	779.8	844.6	0.8%
EPS (₹)	9.9	9.7	7.3	9.2	9.9	
P/E	19.6	20.1	26.8	21.3	19.6	
Core P/E	NA	14.6	19.9	15.8	14.6	
RoNW (%)	12.9	13.4	9.2	10.8	10.8	
RoCE (%)	17.8	15.7	11.8	13.7	13.6	

Source: Company, ICICI Direct Research

Exhibit 21: Valuation matrix for EIL

SOTP Valuation	Estimated value	Value per share	Remark
Standalone Business			
FY23E EPS	9.9		
P/E Multiple	15.0		
Value per share (₹)		**150**	
Insurance business			
Value of Exide Life Insurance (₹ crore)	3606		1.5x FY19 Embedded Value
Value per share (₹)		**45**	
Value of subsidiaries (₹ crore)			
Value of smelting subsidiaries (₹)	288	**5**	2x P/B on investment (FY20)
Total Value per Share (₹)		**200**	

Source: Company, ICICI Direct Research

Apollo Tyres (ATL)

ATL is a leading tyre manufacturer with significant share of sales (~80%) from the aftermarket channel, which thereby impart an element of topline stability. Domestically, it is among the market leaders with significant share in the M&HCV segment, which is on the cusp of cyclical industry. Domestic operations are capital efficient due to the large scale of operations and low employee costs. European return ratios have been sub-par, however, thereby impacting consolidated capital efficiency parameters. Sharp increase in raw material costs (natural rubber and crude derivatives) are seen weighing on margin trajectory in the near term. With base case valuations now prevailing, we downgrade the stock from BUY to **HOLD** and assign a revised target price of ₹ 200 i.e. 5x EV/EBITDA on FY23E numbers. With the recent equity conversion by Wargus Pincus entities, we estimate that peak debt levels are behind ATL. We will closely monitor sustained progress on B/S de-leveraging and improvement in European profitability levels before any meaningful upgrade in our rating and target price.

ATL price performance

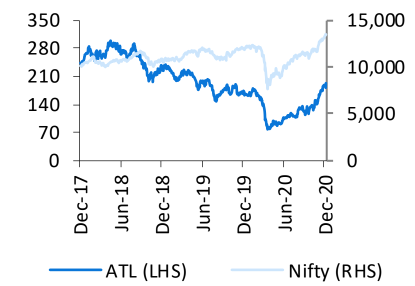


Exhibit 22: Financial summary for ATL

Key Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	17,548.8	16,327.0	16,432.2	18,534.3	20,248.9	7.4%
EBITDA	1,958.9	1,915.6	2,196.1	2,696.1	3,068.3	17.0%
EBITDA Margins (%)	11.2	11.7	13.4	14.5	15.2	
Net Profit	680.0	476.4	366.4	738.2	930.0	25.0%
EPS (₹)	11.9	8.3	5.8	11.6	14.6	
P/E	16.0	22.8	32.9	16.3	13.0	
RoNW (%)	8.3	4.8	3.3	6.3	7.5	
RoCE (%)	7.3	4.5	5.0	7.0	8.4	

Source: Company, ICICI Direct Research

Balkrishna Industries (BIL)

BIL is the market leader in the niche off-highway tyre (OHT) exports space. Exports form ~80% of revenues. Major geographies being served include Europe (51% of sales), North America (~14% of sales), India (~23% of sales) and rest of the world (~12% of sales). The company's products find applications in agriculture and OTR/mining (~64% and ~33% of sales respectively), with replacement demand dominating channel mix (~71%). The company currently commands global market share of ~5%. BIL has over the years exhibited anti-commodity behaviour i.e., consistent high double digit operating margins (25%+) and return ratios (RoCE: ~20%) by virtue of its cost leadership (frugal engineering, low manpower costs & optimum raw material sourcing strategy). With backward integration in place and capex slated to be largely completed in FY21E, BIL is well poised to generate substantial FCF, going forward. However, the recent stock price rally limits upside potential. Hence, we downgrade the stock from BUY to **HOLD**, valuing it at ₹ 1770 i.e. 26x P/E on FY23E EPS of ₹ 68.

BIL price performance

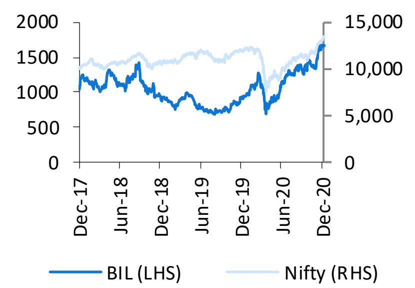


Exhibit 23: Financial summary for BIL

Key Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	5,244.5	4,782.5	5,238.4	6,016.8	6,537.2	11.0%
EBITDA	1,311.1	1,249.3	1,572.6	1,865.7	2,088.6	18.7%
EBITDA Margins (%)	25.0	26.1	30.0	31.0	32.0	
Net Profit	782.0	945.0	929.7	1,133.5	1,315.5	11.7%
EPS (₹)	40.5	48.9	48.1	58.6	68.0	
P/E	40.3	33.3	33.9	27.8	24.0	
RoNW (%)	16.7	18.8	16.7	18.2	18.8	
RoCE (%)	16.7	14.4	17.6	19.7	20.4	

Source: Company, ICICI Direct Research

Motherson Sumi Systems (MSSL)

MSSL has recently notified its next five-year plan i.e. Vision 2025, wherein it intends to nearly quadruple its revenues to US$36 billion (via organic as well as inorganic route), accompanied by targeted consolidated RoCE and dividend pay-out levels of ~40%. It intends to further diversify operations, with non-automotive revenues (mainly from logistics, aerospace and healthcare) contributing ~25% of 2025 revenue target. We like MSSL's directional intent regarding further business de-risking, its ambitions on the capital efficiency front as well as present product profile less prone to EV risk. However, given the impending corporate restructuring and inherent foreign exchange risk given the scale of operations, we continue to ascribe a **HOLD** rating to the stock. We now roll over our valuations to FY23E, valuing the company at ₹ 165 i.e., 26x P/E on FY23E EPS of ₹ 6.3.

MSSL price performance

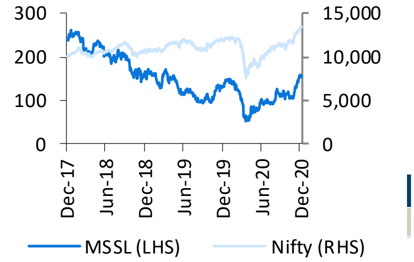


Exhibit 24: Financial summary for MSSL

Key Financials	FY19	FY20	FY21E			
Net Sales	63,522.9	63,536.9	57,459.9	[illegible]		
EBITDA	5,348.4	5,201.4	3,757.6	6,586.4	7,378.0	12.4%
EBITDA Margins (%)	8.4	8.2	6.5	9.5	10.1	
Net Profit	1,613.2	1,170.1	94.3	1,603.5	1,996.4	19.5%
EPS (₹)	5.1	3.7	0.3	5.1	6.3	
P/E	31.3	43.2	535.8	31.5	25.3	
RoNW (%)	14.7	10.4	0.9	13.2	14.9	
RoCE (%)	12.4	9.0	2.8	13.1	16.0	

Source: Company, ICICI Direct Research

Exhibit 25: ICICI Direct Research universe (Auto & Auto Ancillary)

Sector / Company	CMP	TP		M Cap	EPS (₹)				P/E (x)				EV/EBITDA (x)				RoCE (%)				RoE (%)			
	(₹)	(₹)	Rating	(₹ Cr)	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E
Apollo Tyre (APOTYR)	190	200	Hold	10,869	8.3	5.8	11.6	14.6	22.8	32.9	16.3	13.0	8.8	7.0	6.2	4.9	4.5	5.0	7.0	8.4	4.8	3.3	6.3	7.5
Ashok Leyland (ASHLEY)	**95**	**120**	**Buy**	**27,807**	**0.8**	**-0.6**	**2.4**	**4.7**	**116.4**	**-149.6**	**39.0**	**20.4**	**25.4**	**44.7**	**16.0**	**10.7**	**4.5**	**0.0**	**9.5**	**15.8**	**4.7**	**-2.6**	**9.5**	**16.2**
Bajaj Auto (BAAUTO)	**3,270**	**3,920**	**Buy**	**94,624**	**176.2**	**142.5**	**180.2**	**207.3**	**18.6**	**22.9**	**18.1**	**15.8**	**15.2**	**16.9**	**12.3**	**10.1**	**23.9**	**24.1**	**27.3**	**27.7**	**25.6**	**18.5**	**20.7**	**21.0**
Balkrishna Ind. (BALIND)	1,630	1,770	Hold	31,511	48.9	48.1	58.6	68.0	33.3	33.9	27.8	24.0	25.6	20.2	16.7	14.6	14.4	17.6	19.7	20.4	18.8	16.7	18.2	18.8
Bharat Forge (BHAFOR)	550	550	Hold	25,606	7.5	0.8	10.5	18.3	73.3	NM	52.3	30.1	25.4	45.5	22.5	16.0	5.6	0.3	5.9	9.8	7.8	0.8	8.8	13.8
Eicher Motors (EICMOT)	2,475	2,650	Hold	67,469	67.0	46.6	70.2	90.2	36.9	53.2	35.2	27.4	27.9	34.3	24.3	18.8	17.3	11.8	15.2	16.9	18.3	11.6	15.3	17.1
Escorts (ESCORT)	1,335	1,500	Hold	16,364	39.6	59.5	71.0	80.9	33.7	22.4	18.8	16.5	22.8	14.9	12.5	10.6	16.2	15.3	15.3	14.9	14.2	14.0	14.5	14.3
Exide Industries (EXIIND)	195	200	Hold	16,575	9.7	7.3	9.2	9.9	14.6	19.9	15.8	14.6	12.0	13.3	10.9	9.9	15.7	11.8	13.7	13.6	13.4	9.2	10.8	10.8
Hero Moto (HERHON)	3,110	3,480	Hold	62,107	181.9	123.6	161.8	183.1	17.1	25.2	19.2	17.0	14.1	16.1	12.1	10.4	21.3	16.6	20.6	21.3	22.7	16.0	19.0	19.4
M&M (MAHMAH)	**720**	**870**	**Buy**	**89,510**	**11.2**	**22.8**	**40.1**	**46.4**	**64.6**	**31.6**	**18.0**	**15.5**	**14.9**	**14.4**	**11.5**	**9.8**	**8.8**	**8.4**	**10.5**	**11.5**	**6.4**	**9.5**	**11.9**	**12.5**
Maruti Suzuki (MARUTI)	7,770	6,450	Sell	2,34,716	187.1	132.1	191.8	230.6	41.5	58.8	40.5	33.7	27.2	39.0	25.3	20.6	7.4	3.6	7.6	9.2	11.7	7.8	10.6	11.7
Minda Industries (MININD)	**380**	**440**	**Buy**	**10,333**	**5.9**	**6.7**	**10.8**	**14.7**	**64.3**	**56.8**	**35.1**	**25.8**	**18.2**	**18.1**	**13.1**	**10.7**	**9.1**	**7.9**	**12.3**	**15.2**	**10.3**	**9.4**	**14.2**	**16.3**
Motherson (MOTSUM)	160	165	Hold	50,527	3.7	0.3	5.1	6.3	43.2	NM	31.5	25.3	11.0	15.2	8.3	6.9	9.0	2.8	13.1	16.0	10.4	0.9	13.2	14.9
Tata Motors (TATMOT)	**180**	**210**	**Buy**	**64,759**	**-33.3**	**-16.6**	**6.1**	**17.3**	**NM**	**NM**	**29.5**	**10.4**	**5.8**	**5.3**	**3.9**	**3.0**	**1.3**	**2.8**	**6.4**	**9.4**	**-18.7**	**-10.6**	**3.7**	**9.6**

Source: Company, ICICI Direct Research

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