

Retail, inquiries and bookings reflect sustained optimism...

...PV and tractor wholesales remain low due to supply constraints

“The premium segment of motorcycles would grow faster than others, and BJAUT would be in a very good position to take advantage of this trend. This is true for domestic and our overseas markets” – **Rakesh Sharma**, Executive Director, Bajaj Auto

- Demand in Dec'20 is better than last year. Discounts currently stand ~50% as compared to last year. Inventory is lower than normal for PVs and Tractors, leaving headroom for higher inventory filling in coming months. Wholesales are expected to grow on a low base in Dec'20, catering to the spillover demand from the festive season and inventory refilling (for PVs and Tractors).
- Our interaction with leading industry channel partners reflects optimism. 2W inventory currently stands at 30-45 days, PVs inventory while entering last week of December remain at minimal levels (10-20 days), with a waiting period of 4-6 weeks in fast selling models. M&HCVs are seeing strong demand from the Infrastructure/Construction segment on the back of resumed government spending on infrastructure, whereas inquiries from haulage are better than last year. Demand for Tractors continues to remain strong, with a growth in retails and supplies just meeting demand. Overall consumer sentiment has improved, but the market remains cautious fearing a second COVID-19 wave.
- Wholesales in Dec'20 are expected to grow YoY on a low base for all segments, excluding M&HCV and 3Ws. In Dec'20, wholesale volumes are estimated to grow at 14.4% for 2Ws on a low base and 5.4% for PVs due to year-end sales. CV volumes are likely to decline by 2.8% (LCV growth of 4.7%, but restricted by a decline of ~11.6% in M&HCVs). Wholesale volumes for Tractors are expected to grow by 38.4% YoY on robust demand and lower base.
- 2Ws: Retail sales were largely flat YoY. However, there was inventory stocking at the sub-dealer level due to upcoming price hike in Jan'21. This year, the discounts were higher in entry-level models v/s executive models like Hero Deluxe (at INR1.5k), Bajaj Platina (at INR1.6-2.6k), Pulsar 125 (at INR1.5-2k) and hardly any discounts from TVSL. Dealers are holding an inventory of 1-1.5 months. RE has a waiting period of 4-6 weeks for its bikes, with the same for Meteor at 14-18 weeks. Honda Highness (waiting period of 4-6 weeks) is offering good competition to RE as: 1) Meteor's product quality is on par with Highness, and 2) ICICIBC is offering loans at an interest rate of 5.6% on Honda Highness, decreasing the total cost by INR20-25k v/s RE's Meteor. We expect ~23% growth in wholesales for RE, 15% for HMCL, 7.8% for BJAUT (5% growth in domestic 2Ws) and ~17.4% for TVSL.
- PVs: The strong momentum continues in PV retail sales, with manufacturers restricting year-end discounts on the lower side (v/s ~50% last year). PVs have a high waiting period across OEMs. MSIL is seen losing some sales to other OEMs due to its 3-12 week waiting period (order book of ~1.5 months). There is increased interest in the company's fitted CNG models due to higher petrol prices. Volumes are expected to grow by ~3.4% for MSIL and at a modest 2.5% for MM's UV (including pick-ups) due to supply-chain constraints.
- CVs: Demand for M&HCVs from the Infrastructure segment remains strong as the government has resumed spending on projects and cargo has started to recover with an increase in capacity utilization. Inquiries are better than last year, but transporters are holding back purchases on expectations of higher discounts. TTMT and Bharat Benz were better off than competitors on the back of their higher tonnage portfolio. LTV is stable at 80-85%, however discounts have inched up to 15-17% from 13-15%. In higher tonnage segments, discounts are as low as 6-7% due to higher demand from the

Infrastructure segment. LCV and SCV demand was similar to last year as price hikes in Dec'20 and low year-end discounts made customers postpone their purchases to Jan'21. Launch of AL's Bada Dost in the remaining parts of India would further boost its LCV sales. We expect AL's wholesales to grow by 8.5% YoY (-10% for M&HCVs) and that for TTMT to decrease by 6.8% (-10% for M&HCVs and -5% for LCV).

- **Tractors:** Demand for Tractors has sustained due to good rabi sowing and preference for farm mechanization. Both MM and ESC are operating at full capacity. Sales remains skewed towards higher HP tractors due to high demand from the Agriculture segment. Commercial use of tractors is also picking up slowly. Dealers are also holding inventory (10-30 days) depending on the model. We expect Tractor volumes to grow by 30%/75% YoY for MM/ESC due to high demand and low base.
- **Valuation and view:** Despite Dec'20 being a seasonally slow month, it saw decent demand (at par YoY), with discounts lower by ~50% YoY. With pent-up demand largely met, it would be critical for demand to sustain in 4QFY21 and beyond, considering the expected price hikes as well as opening up of public transport in many parts of the globe. Current valuations suggest the recovery is likely to sustain (our base case), leaving a limited margin of safety for any negative surprises. We prefer companies with: a) higher visibility in terms of a demand recovery, b) a 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 Dec'20

Company sales	YoY			MoM							Residual growth (%)
	Dec'20	Dec'19	YoY (%) chg.	Nov'20	MoM (%) chg.	FY21 YTD	FY20 YTD	(%) chg.	FY21 estimate	Gr. (%)	
MSIL	1,37,815	1,33,296	3.4	1,53,223	-10.1	9,43,215	11,78,272	-19.9	14,12,401	-9.6	22.1
MM	61,932	57,220	8.2	75,457	-17.9	5,08,884	6,26,245	-18.7	7,37,246	-5.2	50.5
UVs (incl. pick-ups)	33,844	33,019	2.5	38,402	-11.9	2,32,803	3,24,530	-28.3	3,54,270	-12.0	55.6
Tractors	23,387	17,990	30.0	32,726	-28.5	2,61,574	2,42,625	7.8	3,39,654	12.5	31.7
TTMT	49,786	46,903	6.1	49,650	0.3	2,86,994	3,71,887	-22.8	4,56,953	-3.5	67.5
HCVs	10,903	12,114	-10.0	8,772	24.3	44,489	97,396	-54.3	92,038	-26.0	75.8
LCVs	20,870	21,968	-5.0	19,210	8.6	1,09,700	1,74,165	-37.0	1,81,273	-16.2	70.1
CVs	31,772	34,082	-6.8	27,982	13.5	1,54,189	2,71,561	-43.2	2,73,311	-19.8	72.3
Cars	11,500	6,617	73.8	13,826	-16.8	85,108	52,264	62.8	1,18,926	64.7	69.4
UVs	6,514	6,204	5.0	7,842	-16.9	47,697	48,062	-0.8	64,716	7.1	37.4
HMCL	4,88,572	4,24,845	15.0	5,91,091	-17.3	42,64,620	50,75,208	-16.0	59,75,433	-5.9	34.0
BJAUT	3,46,801	3,36,055	3.2	4,22,240	-17.9	27,77,519	36,23,251	-23.3	40,40,245	-12.5	27.3
2Ws	3,07,076	2,84,802	7.8	3,84,993	-20.2	25,26,753	30,94,028	-18.3	35,81,895	-9.3	23.6
3Ws	39,725	51,253	-22.5	37,247	6.7	2,50,766	5,29,223	-52.6	4,58,350	-31.3	50.0
AL	12,123	11,168	8.5	10,659	13.7	56,029	99,751	-43.8	1,09,809	-12.3	111.0
CV (ex. LCV)	6,323	7,025	-10.0	5,114	23.6	24,982	61,656	-59.5	59,290	-24.6	102.6
LCV	5,800	4,143	40.0	5,545	4.6	31,047	38,095	-19	50,519	8.3	127.7
TVSL	2,71,821	2,31,571	17.4	3,22,709	-15.8	21,24,021	26,30,548	-19.3	29,50,566	-9.6	30.6
EIM											
RE	62,012	50,416	23.0	63,782	-2.8	4,00,473	5,32,969	-24.9	6,32,252	-9.2	42.2
VECV	4,160	5,042	-17.5	3,710	12.1	22,366	37,092	-39.7	40,554	-16.8	56.4
ESC	7,200	4,114	75.0	10,165	-29.2	73,620	65,910	11.7	1,00,641	17.0	34.4

NOTES

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