

## Growth momentum waning, wholesale aided by re-stocking

- Our channel checks indicate that retail sales were weak across segments dragged by 1) Lower discounts (especially for PVs) vs last year, 2) Farmers' protest (North India), 3) Customers waiting for refreshed 2021 models, 4) An inauspicious period starting in mid-Dec, 5) Exhaustion of pent up demand (especially in 2Ws) and 6) Depressed freight rates and underutilization of truck (dent for M&HCV demand).
- However, inventory is lower than normal for PVs and Tractors, leaving headroom for higher wholesales. We expect 2Ws/PVs/Tractor dispatches are likely to improve by 8/8/34% YoY on a low base while CV is expected to see 10% YoY decline for Dec-20.
- Retail sales (across segment) in Punjab, Haryana and Delhi-NCR have been adversely affected by the ongoing farmers' protests. However, Maharashtra is recovering well and almost back to pre-Covid level. The Southern and Western (Especially Gujarat) markets are still slow.
- Although PVs sales remain stable YoY, current discounts are much lower than last year due to increase in input costs. However, the system inventory is at comfortable level of 20-25 days. MSIL is in a better position than peers due to its entry-level portfolio we anticipate MSIL to deliver ~148.5k units (+11% YoY) in Dec-20.
- 2W retail sales was weak due to exhaustion of pent up demand and impact on small businesses resulting in buildup of system inventory to 35-40 days. Retail sales of Entry-level motorcycles (110-125) is weak and OEMs are offering discounts to liquidate their inventory.
- We expect Hero MotoCorp dispatches to improve by 11% YoY to 470k units; TVS Motors to dispatch 251k units (+8% YoY). Bajaj dispatches (350k units; +4% YoY) to be supported by strong export traction due to preference of personal mobility and stabilization of crude prices. RE dispatches to be 60k (+19% YoY).
- Tractor- Although retail sales were soft at the year end, we expect wholesale volume continue to be strong due to re-stocking and low base.
- In the **CV** space, LCV/ICV segment is gaining momentum driven by demand for last-mile connectivity and rural demand. However, low fleet utilization and poor financial condition of fleet operators continues to be a concern for M&HCVs. Ashok Leyland dispatches expected to de-grow by 8% YoY at 10.3k units.
- We expect retail sales continue to be under pressure in near term owing to increase in vehicle prices and exhaustion in pent up demand
- Our top picks are MSIL, Bajaj Auto, Escorts and M&M in large cap space and NRB Bearings, Varroc Engineering, JBM Auto, Sandhar Tech. and Suprajit Engineering in mid and small cap space.**

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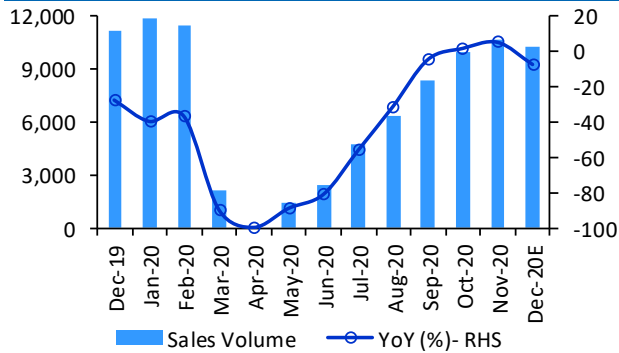
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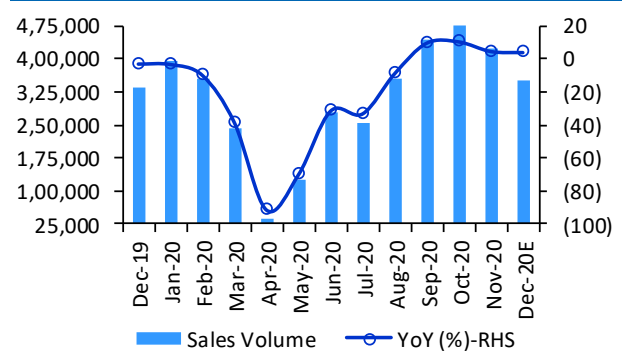
**Exhibit 1: Volume Snapshot for December-20E**

Company	Dec-20E	Dec-19	YoY (%)	Nov-20	MoM (%)
<b>Two/Three Wheeler</b>					
Bajaj Auto	3,50,000	3,36,325	4.1	4,22,240	(17.1)
Motorcycle	3,13,000	2,84,802	9.9	3,84,993	(18.7)
3 Wheeler	37,000	51,523	(28.2)	37,247	(0.7)
Eicher - RE	60,000	50,416	19.0	63,782	(5.9)
Hero MotoCorp	4,70,000	4,24,845	10.6	5,91,091	(20.5)
TVS Motors	2,51,000	2,31,571	8.4	3,22,709	(22.2)
<b>Total</b>	<b>11,31,000</b>	<b>10,43,157</b>	<b>8.4</b>	<b>13,99,822</b>	<b>(19.2)</b>
<b>Four Wheeler</b>					
Maruti Suzuki	1,48,500	1,33,296	11.4	1,53,223	(3.1)
M&M (Automotive)	38,450	39,230	(2.0)	42,731	(10.0)
<b>Total</b>	<b>1,86,950</b>	<b>1,72,526</b>	<b>8.4</b>	<b>1,95,954</b>	<b>(4.6)</b>
<b>Commercial Vehicles</b>					
Ashok Leyland	10,300	11,168	(7.8)	10,659	(3.4)
Eicher - VECV	4,000	4,910	(18.5)	3,561	12.3
SML Isuzu	550	549	0.2	516	6.6
<b>Total</b>	<b>14,850</b>	<b>16,627</b>	<b>(10.7)</b>	<b>14,736</b>	<b>0.8</b>
<b>Tractors</b>					
Escorts	5,808	4,114	41.2	10,165	(42.9)
M&M Tractors	23,800	17,990	32.3	32,726	(27.3)
<b>Total</b>	<b>29,608</b>	<b>22,104</b>	<b>33.9</b>	<b>42,891</b>	<b>(31.0)</b>

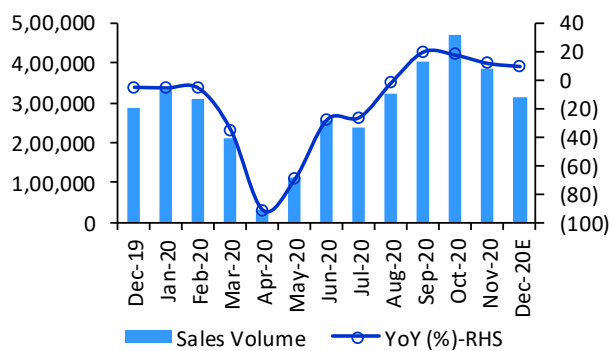
Source: Company, DART

**Exhibit 2: Ashok Leyland**


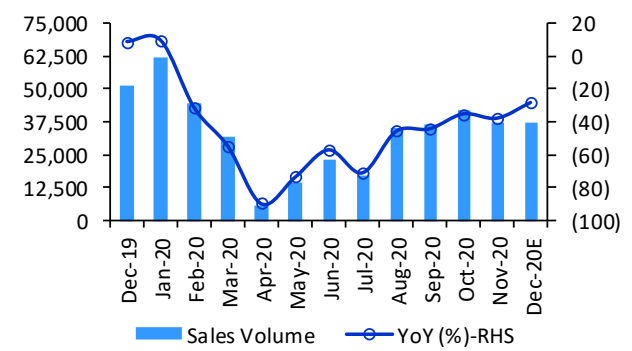
Source: Company, DART

**Exhibit 3: Bajaj - Overall**


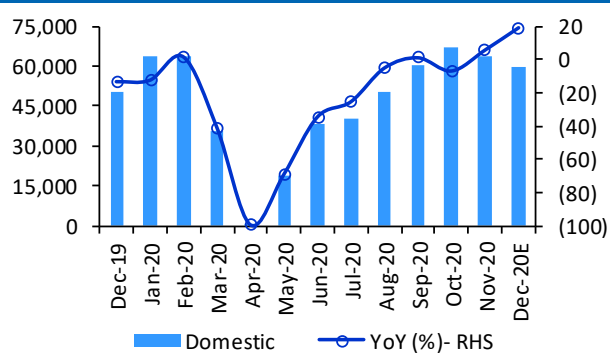
Source: Company, DART

**Exhibit 4: Bajaj - Motorcycles**


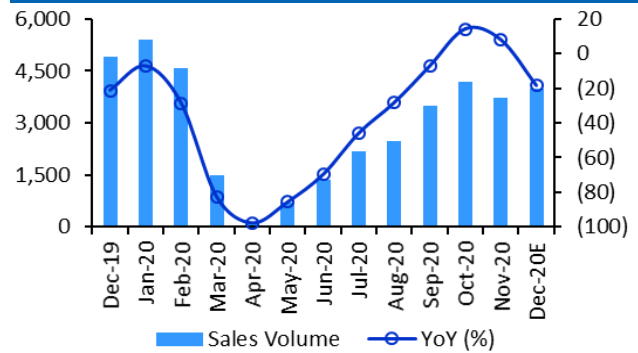
Source: Company, DART

**Exhibit 5: Bajaj - CV**


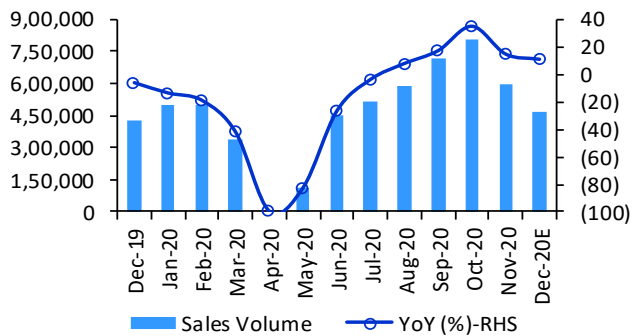
Source: Company, DART

**Exhibit 6: Eicher - RE**


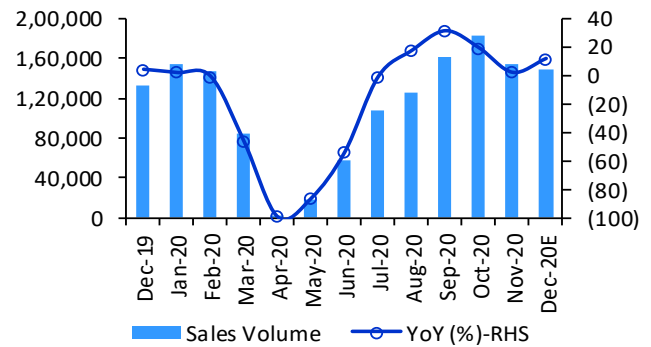
Source: Company, DART

**Exhibit 7: Eicher - VECV**


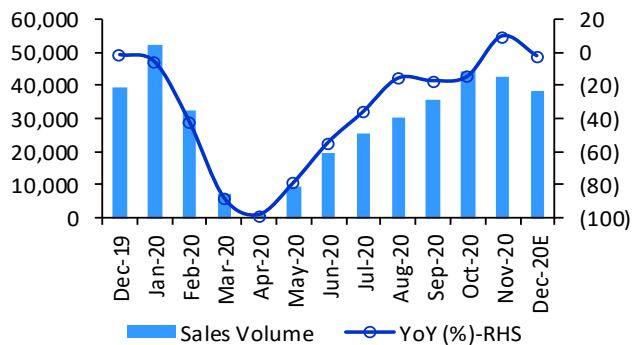
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**Exhibit 8: Hero MotoCorp**


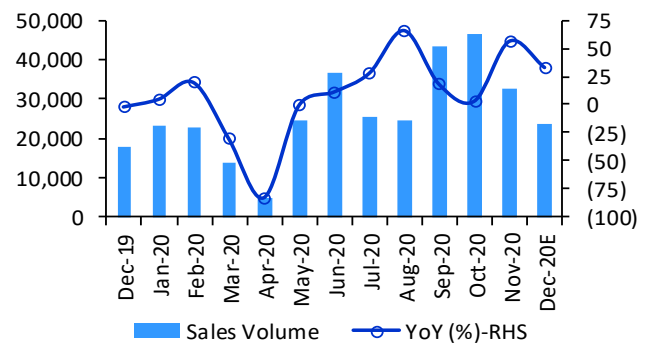
Source: Company, DART

**Exhibit 9: Maruti Suzuki**


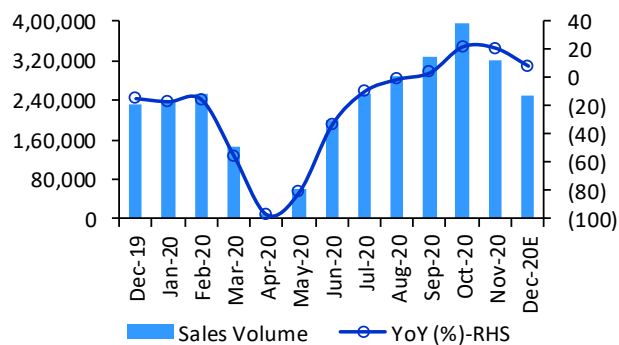
Source: Company, DART

**Exhibit 10: M&M Auto**


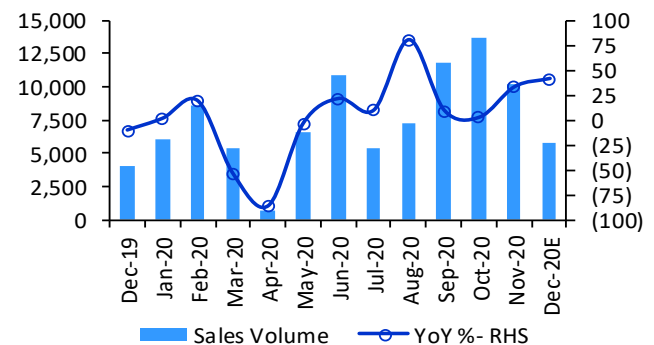
Source: Company, DART

**Exhibit 11: M&M Tractors**


Source: Company, DART

**Exhibit 12: TVS Motors**


Source: Company, DART

**Exhibit 13: Escorts**


Source: Company, DART

## Valuation Matrix

Auto OEMs	Mcap (Rs bn)	CMP (Rs)	TP (Rs)	Upside (%)	Rating	Adj EPS (Rs /sh)				P/E (x)				EV/EBITDA (x)				ROE (%)			
						FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21	FY22E	FY23E
Ashok Leyland	281	96	98	2	Accumulate	0.8	(1.2)	1.7	4.9	117.3	NA	56.9	19.5	25.5	NA	20.6	11.3	3.1	(5.0)	6.8	19.6
Bajaj Auto	989	3,418	3,358	(2)	Accumulate	176.2	151.7	180.5	198.3	19.4	22.5	18.9	17.2	16.0	17.3	13.5	11.6	24.5	19.1	19.3	19.1
Eicher Motors	663	2,432	2,387	(2)	Sell	66.9	51.3	84.0	99.5	36.3	47.4	28.9	24.4	26.8	30.2	19.6	16.7	19.3	13.4	19.3	19.6
Escorts	155	1,266	1,334	5	Accumulate	53.6	68.3	72.0	83.4	23.6	18.5	17.6	15.2	22.6	15.4	14.3	12.1	15.2	15.8	12.9	13.0
Hero Motocorp	624	3,122	3,288	5	Accumulate	148.0	135.3	175.8	193.4	21.1	23.1	17.8	16.1	14.5	15.3	11.5	10.2	21.9	17.8	20.7	20.7
Mahindra Mahindra	842	710	715	1	Accumulate	20.6	28.3	36.2	43.3	34.4	25.0	19.6	16.4	13.1	13.0	11.2	9.6	7.4	9.7	11.3	12.3
Maruti Suzuki	2263	7,490	7,815	4	Accumulate	187.1	151.7	259.1	312.6	40.0	49.4	28.9	24.0	26.1	31.9	17.8	14.1	11.9	9.2	14.4	15.7
SML ISUZU	7	464	392	(16)	Sell	(14.5)	(33.5)	(1.0)	21.8	NA	NA	NA	21.3	64.9	NA	17.3	8.5	(5.3)	(13.5)	(0.4)	9.1
TVS Motor	230	485	417	(14)	Sell	13.1	8.5	15.0	19.5	36.9	57.0	32.4	24.9	18.4	21.4	15.8	12.9	17.9	10.7	17.1	19.6
<b>Auto Ancillary</b>																					
Amara Raja	161	941	845	(10)	Reduce	38.7	33.8	41.3	46.9	24.3	27.9	22.8	20.0	12.1	12.8	10.8	9.5	18.9	14.9	16.2	16.2
Apollo Tyres	102	178	167	(6)	Accumulate	8.3	4.6	7.3	10.5	21.4	39.1	24.4	17.1	8.7	8.1	7.2	6.2	4.8	2.5	4.1	5.7
Asahi India	66	270	292	8	Buy	6.3	2.7	8.1	11.7	42.8	99.5	33.6	23.1	19.1	23.8	16.0	12.9	12.0	4.8	13.5	17.3
Balkrishna Ind	305	1,576	1,536	(3)	Reduce	48.9	56.2	62.2	69.8	32.2	28.0	25.3	22.6	24.8	18.4	16.3	14.3	19.5	19.9	18.9	18.4
Bharat Forge	246	529	555	5	Accumulate	9.2	3.7	15.6	22.2	57.4	141.8	33.8	23.8	13.0	18.6	9.2	7.0	8.0	3.3	13.2	16.7
CEAT	43	1,065	1,250	17	Accumulate	64.0	53.8	62.3	83.3	16.7	19.8	17.1	12.8	8.8	8.9	8.2	7.1	8.1	7.3	7.9	9.9
Exide Ind	158	186	201	8	Buy	9.7	7.5	10.3	11.3	19.2	24.8	18.1	16.4	11.5	12.9	9.8	8.3	13.6	10.1	12.9	13.2
Jamna Auto	23	58	62	7	Buy	1.2	0.6	2.0	3.1	48.2	104.5	29.6	18.7	21.5	36.8	16.3	11.1	9.3	4.2	13.9	19.6
JBM Auto	13	275	380	38	Buy	14.6	8.7	18.4	25.3	18.8	31.7	14.9	10.9	8.3	11.1	8.0	6.5	10.2	5.7	11.4	14.0
Lumax Auto Tech	9	125	137	10	Buy	7.3	4.1	7.5	9.1	17.1	30.7	16.7	13.7	7.0	9.5	6.1	5.0	10.7	6.1	10.8	12.1
Lumax Industries	13	1,380	1,572	14	Buy	76.9	5.0	65.5	87.3	17.9	273.7	21.1	15.8	10.0	18.2	9.5	7.8	17.8	5.3	15.7	17.3
Minda Corp	20	90	77	(14)	Reduce	4.1	1.9	4.3	5.5	21.8	46.9	20.7	16.4	8.3	13.2	8.8	7.5	9.6	4.1	8.5	9.7
Ramkrishna Forg	16	483	461	(5)	Buy	2.9	(13.4)	7.8	30.8	163.8	NA	61.9	15.7	13.3	18.4	10.9	7.7	0.9	(4.6)	2.0	5.8
Sandhar tech	14	240	275	15	Buy	9.5	6.2	11.2	15.3	25.4	39.0	21.4	15.7	8.7	9.8	7.5	6.0	9.0	5.4	8.5	10.3
Sterling Tools	7	200	240	20	Buy	8.1	4.3	8.4	13.3	24.8	46.2	23.8	15.0	12.7	15.6	10.9	7.8	9.8	5.0	9.3	13.4
Subros	21	326	297	(9)	Buy	8.5	4.4	12.0	14.9	38.2	74.0	27.3	21.9	11.4	15.4	10.2	8.4	7.8	3.8	9.6	11.0
Suprajit Eng	27	192	245	28	Buy	9.4	5.9	8.9	11.5	20.4	32.8	21.6	16.7	13.4	16.6	12.1	9.6	16.1	9.2	12.8	14.8
Varrroc Eng.	51	382	484	27	Buy	0.0	(25.2)	11.2	24.2	NA	NA	34.2	15.8	10.2	14.1	7.2	5.6	0.0	(12.0)	5.6	11.4
NRB Bearings	10	100	157	57	Buy	3.3	3.0	7.3	9.2	30.1	33.3	13.7	10.8	14.1	13.7	8.4	6.8	6.9	6.2	14.1	16.0

Source: DART, Company

**DART RATING MATRIX**

Total Return Expectation (12 Months)

<b>Buy</b>	<b>&gt; 20%</b>
<b>Accumulate</b>	<b>10 to 20%</b>
<b>Reduce</b>	<b>0 to 10%</b>
<b>Sell</b>	<b>&lt; 0%</b>

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