

## Outlook CY21: Strong recovery expectations priced in

It is fair to assume CY20 did not go as per plan (thanks to Covid) for most and the auto sector too was impacted as mobility needs got constrained in H1 due to lockdowns. However, H2 was a story of pent-up demand release and growing industry optimism. As we move into CY21, we find ourselves forecasting strong double-digit industry growth (aided by base effect: H1CY20) while assuming a continuation of more of the same trend (rural outperforming urban). A better winter crop harvest under the rising commodity price environment is likely to benefit rural cashflows. Rebound in infrastructure activities (e.g. construction) in rural markets could also lend a fillip to ancillary income streams for households, hence the relative preference for more rural-facing auto segments, viz. tractors and 2Ws vs PVs. We expect urban PV demand to remain more skewed towards the 'uptrading existing vehicle' theme with SUVs continuing to grow in terms of volume/revenue contribution. Commercial segment demand (CVs / 3Ws) is likely to undergo the sharpest rise as economic activity normalisation would increase the need for freight carrying capacity. **Key risk:** Sustenance of current elevated input costs could dent margins if OEMs defer proportional price hikes.

- **Top ideas:** Bajaj Auto, TVS Motors, Balkrishna Industries, Motherson Sumi
- **Value buys:** M&M, Tata Motors, Mahindra CIE

On the consumer side, we believe Covid has prompted rapid digital adoption, which is unlikely to reverse easily. Thus brand interactions with customers, whether virtual product launches or virtual vehicle selling, has become a quintessential requirement. This is likely to act as a pivot towards leaner and more customer service oriented dealership franchises with reduced need for excessive physical presence. Rise in finance penetration and a well incentivised scrappage policy could be potential levers to keep prices of 2Ws and the demand-challenged CVs under control.

### Top-8 focus trends for CY21:

1. 'Premiumisation' continues to be in play; 'scooterisation' expected to revive in CY21
2. Rural again continues to drive aggregate demand
3. Scrappage policy, freight demand increase could act as triggers for M&HCV industry
4. North and East regions continue to do well as mobility normalisation happens
5. Consumer sentiment remains modest amidst continued unemployment worries
6. Competitive intensity likely to remain elevated (discounts and new launches) even as rising input costs potentially dent margins
7. Rising finance penetration with lower interest rates to smoothen monthly wallet impact
8. Tractor sales growth trends to remain positive, but expectations also remain high

**Valuation and risks:** Auto is a cyclical sector; hence we use throughcycle (10-15 years) valuations to analyse the position of the cycle. Sector valuations currently remain relatively expensive on a forward basis even as consensus expectations factor-in FY18/FY19 peak industry dynamics to reflect back in FY23. **Key upside risk:** Better than expected volume recovery. **Key downside risk:** Margin decline amidst rising input costs.

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## CY20: The year that was...

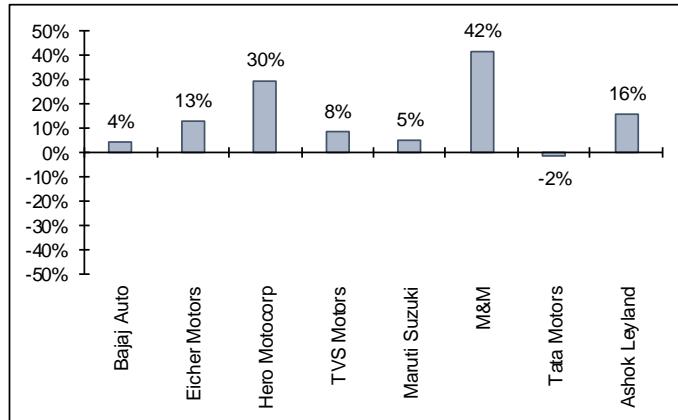
Automotive stock performance was abysmal, largely due to: 1) falling demand due to low consumer confidence; 2) anomalous weather patterns hampering rural recovery; 4) increased cost of ownership; 5) urban millennial move away from multiple vehicle ownerships towards uptrading / shared mobility. 2W OEM stock performance (Bajaj Auto, Eicher) was better due to support from exports while ancillaries languished. OEMs experienced no-operation days for multiple months in H1FY20 to rationalise the high inventory levels maintained in anticipation of demand revival. PV/2W players performed better than their CV and 3W counterparts with CV company stocks significantly down YoY.

**Table 1: Stock performance in CY20**

Stocks	Price as on		Absolute return (%)	High	Change (%)	Low	Change (%)
	12-Dec-20	31-Dec-19					
<b>OEMs</b>							
Bajaj Auto	3,326	3,186	4%	3,368	6%	1,793	-44%
Eicher Motors	2,548	2,251	13%	2,725	21%	1,246	-45%
Hero Motocorp	3,168	2,444	30%	3,394	39%	1,475	-40%
TVS Motors	508	468	8%	510	9%	240	-49%
Maruti Suzuki	7,763	7,367	5%	7,881	7%	4,002	-46%
M&M	754	531	42%	764	44%	246	-54%
Tata Motors	182	185	-2%	202	9%	64	-66%
Ashok Leyland	94	82	16%	98	20%	34	-59%
<b>Ancillaries</b>							
Asahi India	278	200	39%	282	41%	118	-41%
Balkrishna Industries	1,666	990	68%	1,720	74%	678	-32%
Bharat Forge	544	483	13%	566	17%	208	-57%
Bosch	13,246	15,391	-14%	16,000	4%	7,874	-49%
CEAT	1,144	989	16%	1,249	26%	602	-39%
Mahindra CIE	159	165	-4%	179	9%	59	-64%
Motherson Sumi	158	147	8%	162	10%	49	-67%
Varroc Engineering	411	417	-1%	525	26%	119	-71%
Wabco Ltd	5,753	6,476	-11%	7,623	18%	4,770	-26%

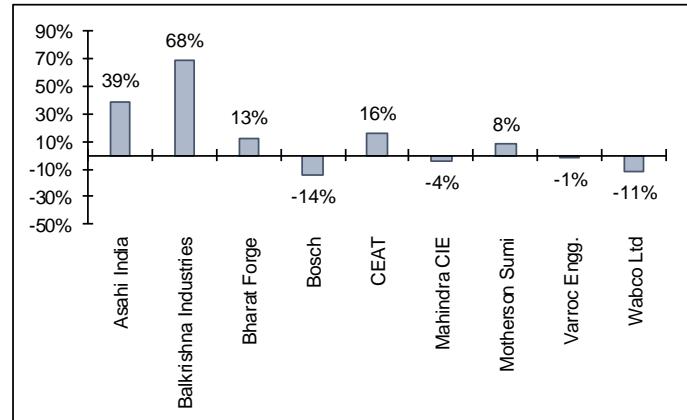
Source: Bloomberg, I-Sec research

**Chart 1: Stock performance – Auto OEMs**



Source: Bloomberg, I-Sec research

**Chart 2: Stock performance – Auto components**



Source: Bloomberg, I-Sec research

**Table 2: Volumes and revenues of auto companies**

Company	FY17				FY18				FY19				FY20				FY21	
	Q1	Q2	Q3	Q4	Q1	Q2												
<b>OEMs (mn units)</b>																		
Bajaj Auto	0.99	1.03	0.85	0.79	0.89	1.07	1.00	1.05	1.23	1.34	1.26	1.19	1.25	1.17	1.20	0.99	0.44	1.05
Eicher Motors	0.16	0.18	0.19	0.20	0.20	0.22	0.22	0.25	0.24	0.23	0.21	0.22	0.20	0.18	0.20	0.17	0.06	0.16
Hero Motocorp	1.75	1.82	1.47	1.62	1.85	2.02	1.71	2.00	2.10	2.13	1.80	1.78	1.85	1.69	1.54	1.33	0.56	1.81
TVS Motors	0.72	0.82	0.72	0.67	0.80	0.95	0.83	0.89	0.93	1.09	0.99	0.91	0.92	0.89	0.82	0.63	0.27	0.87
Maruti Suzuki	0.35	0.42	0.39	0.41	0.39	0.49	0.43	0.46	0.49	0.48	0.43	0.46	0.40	0.34	0.44	0.39	0.08	0.39
M&M	0.20	0.19	0.20	0.19	0.20	0.22	0.21	0.24	0.24	0.23	0.23	0.24	0.22	0.19	0.22	0.15	0.10	0.19
Tata Motors	0.12	0.13	0.13	0.15	0.11	0.15	0.17	0.20	0.18	0.19	0.17	0.19	0.14	0.11	0.13	0.10	0.02	0.11
Ashok Leyland	0.03	0.03	0.03	0.05	0.03	0.04	0.05	0.06	0.04	0.05	0.04	0.06	0.04	0.03	0.03	0.03	0.00	0.02
<b>Ancillaries (Rs bn)</b>																		
Asahi India	5.7	6.1	5.7	5.9	5.9	6.2	6.3	7.3	7.3	7.5	6.7	7.1	7.0	6.4	6.8	5.9	2.2	6.3
Balkrishna Ind	9.1	9.1	9.0	10.0	10.1	11.1	11.1	12.3	13.6	13.3	12.1	13.5	11.9	10.7	11.6	13.6	9.3	15.8
Bharat Forge	9.0	8.9	9.4	11.3	12.0	12.6	13.9	14.7	14.8	16.8	16.9	16.7	13.5	12.6	10.8	8.8	4.3	9.4
Bosch	25.2	26.1	26.9	25.7	26.5	28.1	30.7	31.6	32.1	31.6	31.0	27.5	27.6	23.1	25.4	22.4	9.9	24.8
CEAT	14.6	14.1	13.8	14.5	14.5	15.1	15.5	16.6	16.7	17.2	16.9	17.2	17.0	16.5	17.1	15.2	11.2	19.7
Mahindra CIE	14.0	13.7	13.6	15.3	15.3	16.0	16.2	19.2	19.8	19.4	18.8	18.9	20.6	17.8	17.2	16.6	7.4	16.9
Motherson Sumi	104.5	101.4	106.0	112.5	131.3	134.3	143.9	154.1	147.8	151.0	164.7	171.7	167.9	159.2	156.6	151.6	83.5	149.6
Varroc Engg.					23.4	24.2	25.5	30.0	29.4	30.2	29.7	31.8	29.0	27.1	28.1	27.9	12.9	29.4
Wabco Ltd	5.4	4.6	4.9	5.8	5.3	6.1	6.5	7.8	7.5	7.4	7.0	6.6	6.4	4.5	4.4	4.0	1.7	4.2

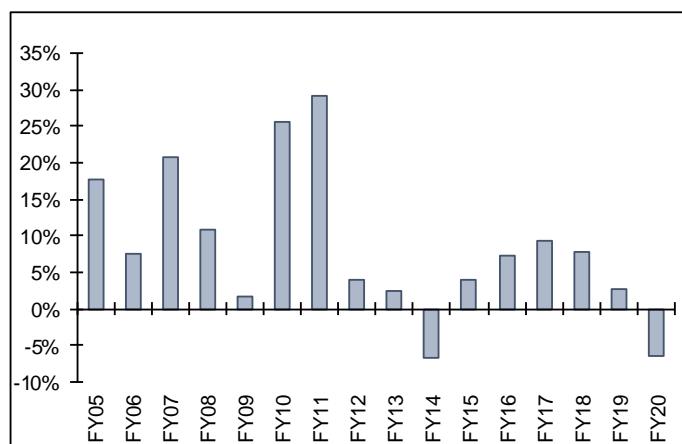
Source: Company data, I-Sec research

**Table 3: Valuation summary**

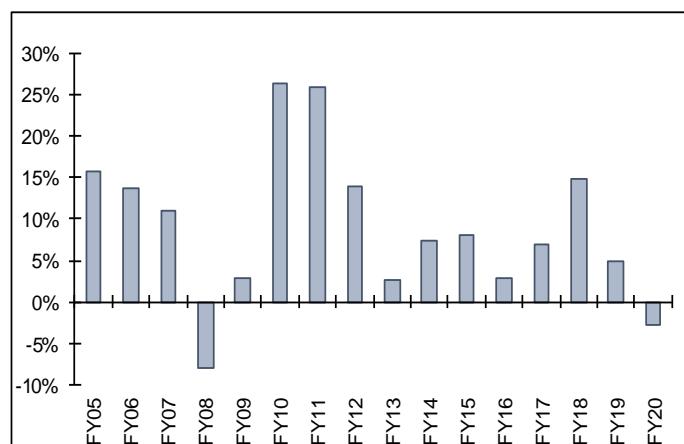
	Old TP	Revised TP	Rating	PE (x)			EV/EBITDA (x)			Market Cap		
				FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	(Rsbn)	(US\$bn)	
<b>OEMs</b>												
Bajaj Auto	3,576	3,820	BUY	22.9	17.3	14.5	18.1	13.2	11.1	963	13.0	
Eicher Motors	2,466	2,624	ADD	48.6	29.2	23.2	35.9	22.4	17.3	696	9.4	
Hero Motocorp	2,908	3,032	HOLD	29.1	20.3	17.1	18.5	13.0	10.8	633	8.6	
TVS Motors	511	593	BUY	54.7	24.1	17.1	16.1	11.3	9.3	241	3.3	
Maruti Suzuki	4,365	4,755	SELL	65.8	38.8	30.1	38.8	23.6	18.2	2,345	31.7	
M&M	787	836	BUY	25.7	21.8	19.1	6.7	5.6	4.7	937	12.7	
Tata Motors	197	215	BUY	0.0	7.1	5.2	4.4	3.0	2.0	600	8.1	
Ashok Leyland	91	101	ADD	NC	54.7	24.4	63.6	17.8	11.6	277	3.7	
<b>Ancillaries</b>												
Asahi India	286	316	BUY	70.8	25.3	19.3	19.7	12.0	9.8			
Balkrishna Ind.	1,892	1,969	BUY	31.3	23.0	19.5	19.1	14.8	12.3	322	4.4	
Bharat Forge	426	482	REDUCE	527.2	52.1	29.0	47.1	23.7	16.1	254	3.4	
Bosch	10,712	11,250	REDUCE	46.8	34.0	27.8	37.4	24.2	18.9	389	5.3	
CEAT	1,323	1,432	BUY	17.5	16.0	11.4	8.4	7.0	5.7	46	0.6	
Mahindra CIE	200	213	BUY	42.3	12.4	9.5	14.2	7.0	5.4	60	0.8	
Motherson Sumi	174	187	BUY	59.3	19.2	13.3	12.0	6.6	4.9	499	6.7	
Varroc Engg.	491	504	BUY	NC	26.4	14.2	11.6	6.0	4.6	55	0.7	
Wabco Ltd	4,465	4,842	REDUCE	91.5	53.3	37.9	51.2	33.1	24.0	109	1.5	

Company	EV/ sales (x)			P/B (x)			RoE (%)			RoCE (%)			CAGR (FY20-23E) (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	Revenue	EBITDA	PAT
<b>OEMs</b>															
Bajaj Auto	3.1	2.3	2.0	4.2	4.0	3.7	18.9	23.6	26.3	19.1	23.8	26.4	8.0	13.9	11.8
Eicher Motors	7.7	5.7	4.7	7.2	6.0	5.0	14.8	20.5	21.4	14.5	20.8	22.3	13.2	17.3	44.6
Hero Motocorp	2.0	1.7	1.5	4.3	4.0	3.6	15.0	20.3	22.1	15.1	20.3	22.1	9.0	16.0	7.9
TVS Motors	1.9	1.5	1.3	6.1	5.0	4.0	11.5	22.8	26.1	7.7	11.1	13.0	7.4	12.7	20.5
Maruti Suzuki	3.3	2.7	2.3	4.6	4.2	3.9	7.1	11.3	13.4	9.5	14.9	17.8	4.2	14.9	11.0
M&M	1.0	0.8	0.7	2.4	2.2	2.1	10.0	11.1	11.8	11.7	12.5	13.5	6.4	7.8	10.2
Tata Motors	0.5	0.4	0.3	0.9	0.9	0.9	-8.2	13.0	14.8	1.8	7.7	9.2	9.3	36.0	NC
Ashok Leyland	2.2	1.6	1.2	4.0	3.8	3.4	-4.8	7.1	14.7	-0.9	6.3	11.0	11.1	28.2	48.8
<b>Ancillaries</b>															
Asahi India	3.4	2.5	2.1	4.6	4.0	3.4	6.4	15.7	17.5	8.8	15.5	18.0	-7.4	-5.6	-22.0
Balkrishna Ind.	6.0	4.8	4.1	5.5	4.7	4.0	17.4	20.4	20.6	19.3	23.5	25.0	14.7	19.8	17.8
Bharat Forge	4.7	3.6	2.9	4.9	4.5	4.0	0.8	8.6	13.8	0.2	5.9	10.5	4.7	14.1	30.3
Bosch	3.6	3.1	2.8	4.2	3.8	3.5	3.5	11.3	12.5	5.0	9.1	10.7	4.0	3.0	2.3
CEAT	1.0	0.9	0.7	1.5	1.4	1.3	8.8	8.9	11.6	9.9	11.4	13.7	8.8	7.8	14.8
Mahindra CIE	1.2	0.9	0.7	1.3	1.2	1.1	3.0	9.4	11.3	3.1	9.8	11.9	3.0	7.0	20.2
Motherson Sumi	0.9	0.7	0.5	4.6	4.4	3.4	7.4	22.9	25.8	5.6	16.0	19.2	12.8	26.9	46.1
Varroc Engg.	0.7	0.6	0.5	2.0	1.9	1.7	-8.5	7.3	12.6	-2.0	5.1	8.5	9.4	66.1	1,162.5
Wabco Ltd	4.9	3.9	3.0	5.4	5.0	4.5	5.9	9.3	11.9	4.8	8.7	11.7	15.8	24.2	33.4

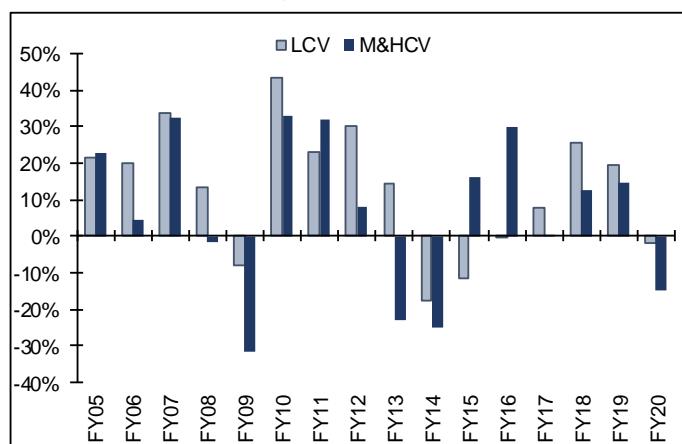
Source: Company data, I-Sec research

**Chart 3: PV volume growth**

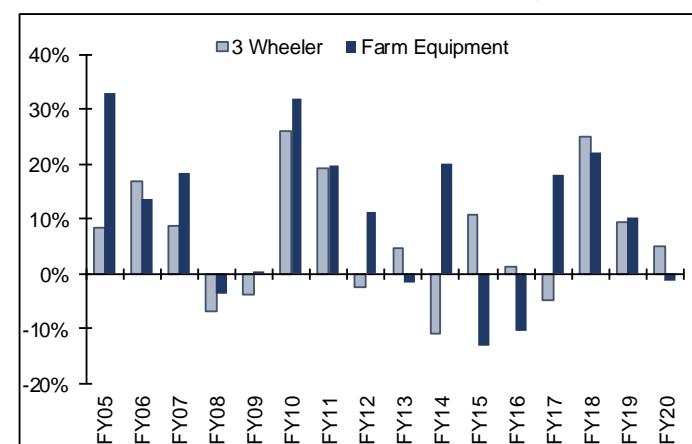
Source: SIAM, I-Sec research

**Chart 4: 2W volume growth**

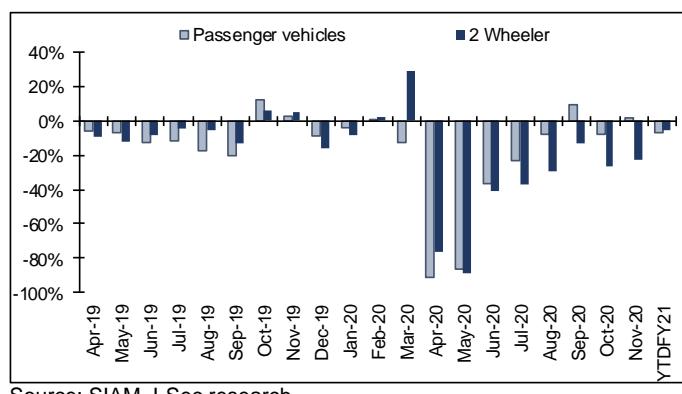
Source: SIAM, I-Sec research

**Chart 5: CV volume growth**

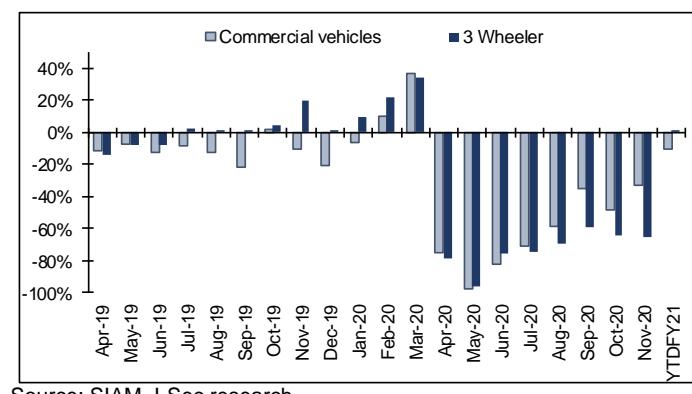
Source: SIAM, I-Sec research

**Chart 6: 3W – Farm equipment volume growth**

Source: SIAM, I-Sec research

**Chart 7: PV – 2W retail sales**

Source: SIAM, I-Sec research

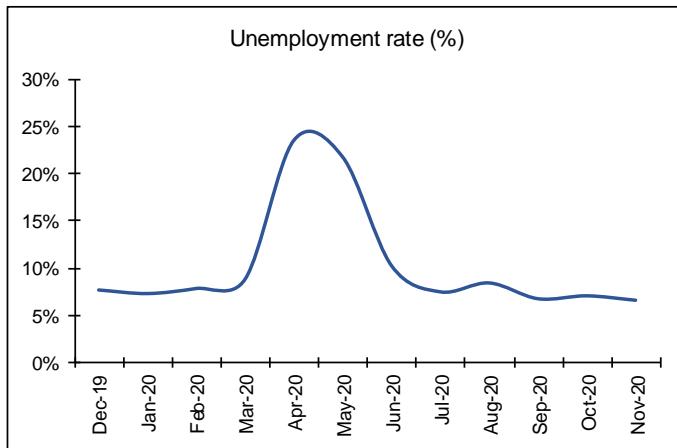
**Chart 8: CV – 3W retail sales**

Source: SIAM, I-Sec research

## 1. Consumer sentiment and retail demand remains weak amidst unemployment worries

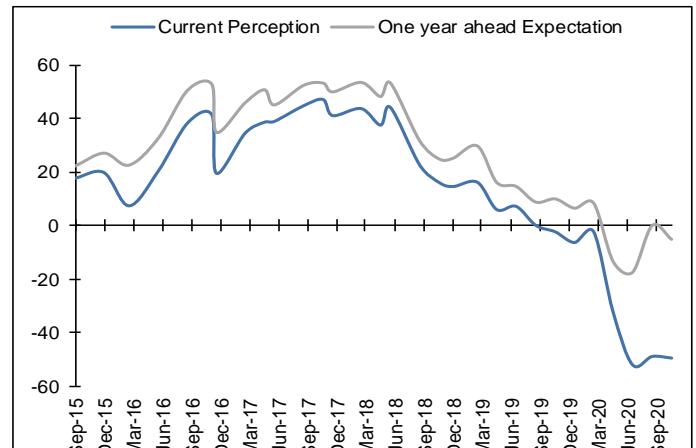
GDP growth in India hit a new low in Q1FY21, as the pandemic struck and economic activity came to a standstill affected by the nationwide lockdown. GDP growth plummeted after witnessing rapid deceleration from 8.2% in Q4FY18 to -7.5% in Q2FY21, leading to material slowing down in consumer spend and, in turn, reduction in demand. Although an improvement in GDP growth is imperative to improve volume growth performance, continuing weak GDP growth and limited non-discretionary expense could mean that other sectors vs automobile are likely to remain under pressure too, with the 1-year forward consumer confidence hitting new lows.

**Chart 9: Unemployment chart**



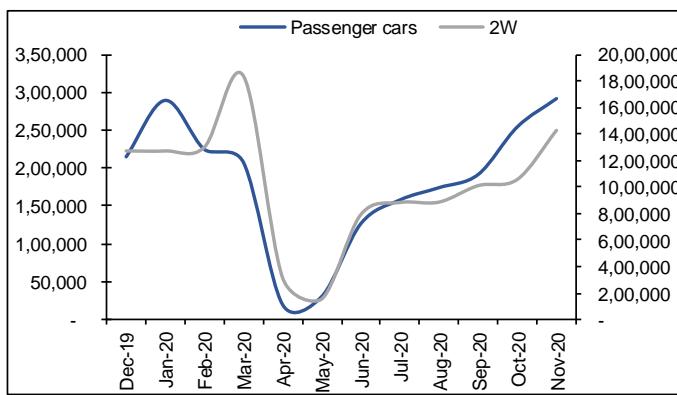
Source: CMIE, I-Sec research

**Chart 10: Consumer confidence hitting new lows**



Source: RBI, I-Sec research

**Chart 11: Retail sales still remain below trend**



Source: Vahan, I-Sec research

## #2. Rural to continue growing fast as segment remains in favour with policy makers

The automotive industry is expected to decline by 8-10% in CY21 over a low base of demand slowdown from last year. Rural demand has improved on the back of positive farm sentiment on better crop profitability, higher government support through income support schemes, and loan waivers in major agri states, higher procurement of field crops and higher rural expenditure (rural expenditure is estimated to be higher by ~145% YoY in H1FY21). Although the monsoon has been good, the actual disbursement of the loan waiver and promised spend on rural infrastructure will be a key monitorable for demand pickup.

**Table 4: Farm loan waivers to benefit industry**

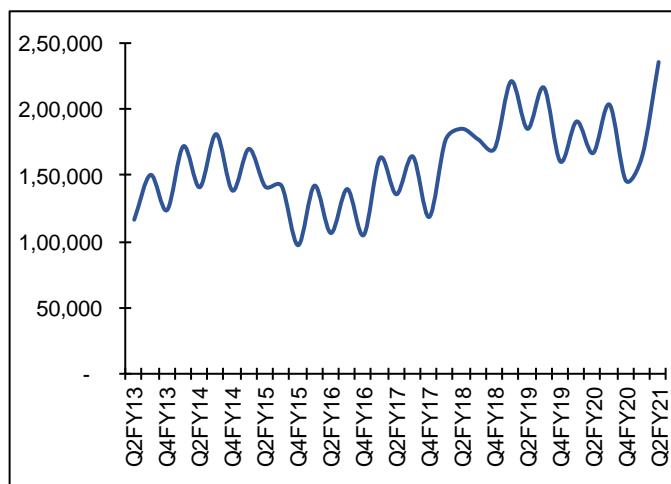
State	Waiver Cut-off (Rs)	Outlay	Disbursement in FY20
Rajasthan	200k/farmer	Rs180bn in FY20	46%
Telangana	100k/farmer	Rs247.4bn till FY21; Rs62.3bn allocated in FY21	19%
Tamil Nadu	200k/farmer	Rs110bn allocated in FY21	22%
Madhya Pradesh	200k/farmer	Rs500bn allocated in FY20	21%
Maharashtra	200k/farmer	Rs200bn till FY21; Rs70bn allocated in FY21	41%

Source: Crisil Research, I-Sec research

## #3. Tractor sales to remain positive; keep an eye on base effect

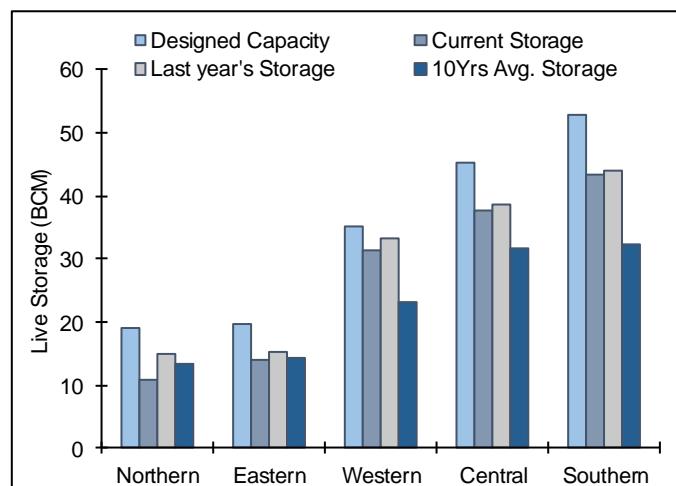
Tractor sales zoomed in CY20 due to higher than normal rainfall in CY19 leading to bumper crop output in *rabi* season. Sowing for *kharif* was delayed; however, higher moisture content, more than average reservoir levels and timely *kharif* harvest have aided *rabi* sowing for CY21. Untimely heavy rainfall has led to crop damage in certain states, but reservoir levels are currently 19% higher than last 10-year average, and this is expected to support 2% YoY growth in *rabi* output. States of Gujarat, Maharashtra, Madhya Pradesh and Karnataka, have reported large excess water supply and together contribute 35% of gross *rabi* area. Better *kharif* yield in CY21 compared to the prior year, and higher profitability of major crops in H1FY21, could increase the farmer's cash in hand and spur growth for tractors even on the strong base growth of CY20.

**Chart 12: Tractor – Domestic sales**



Source: Company data, I-Sec research

**Chart 13: Region-wise reservoir levels**

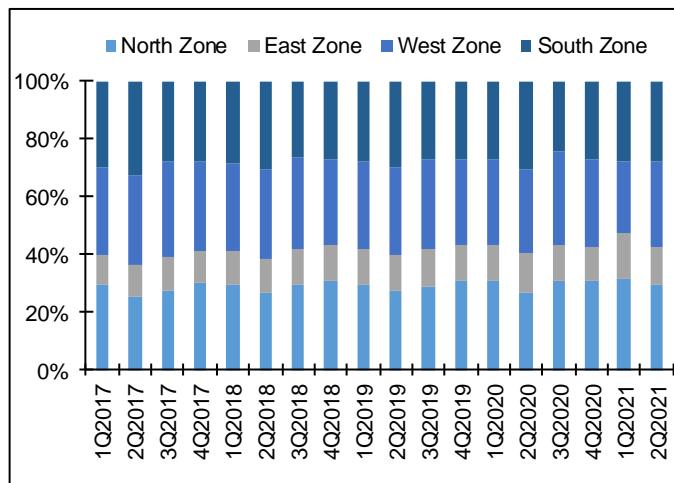


Source: CWC, I-Sec research

## #4. Geographically, North and East continue to do better

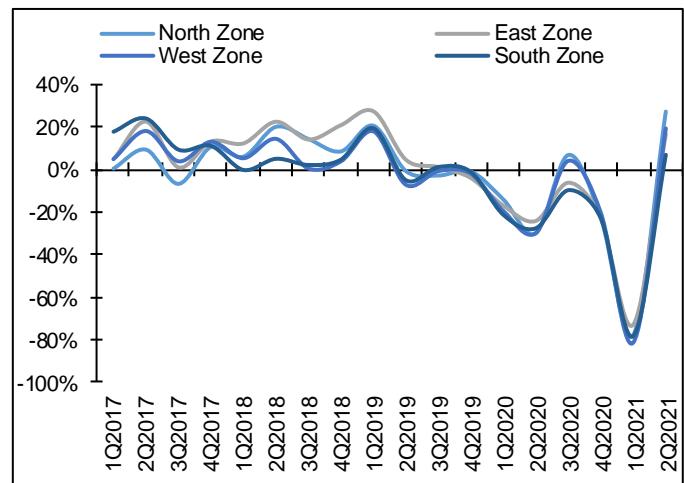
The North and West regions together contribute ~60% of the total auto industry. Growth is plateauing in bigger states like Uttar Pradesh, Maharashtra, Madhya Pradesh, etc. However, smaller states like Punjab, Haryana, Chhattisgarh and Jharkhand in the northern and eastern regions are where the pace of growth is faster than the overall industry. We believe states in the East and the smaller states in North will continue to drive growth.

**Chart 14: PV – Region-wise contribution**



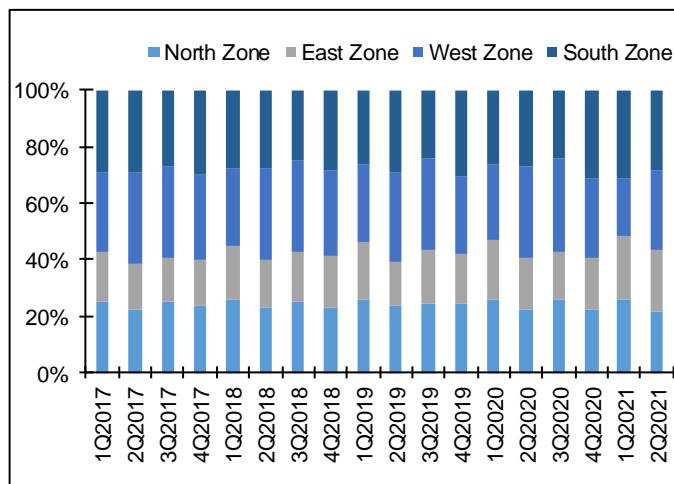
Source: SIAM, I-Sec research

**Chart 15: PV – Region-wise growth trajectory**



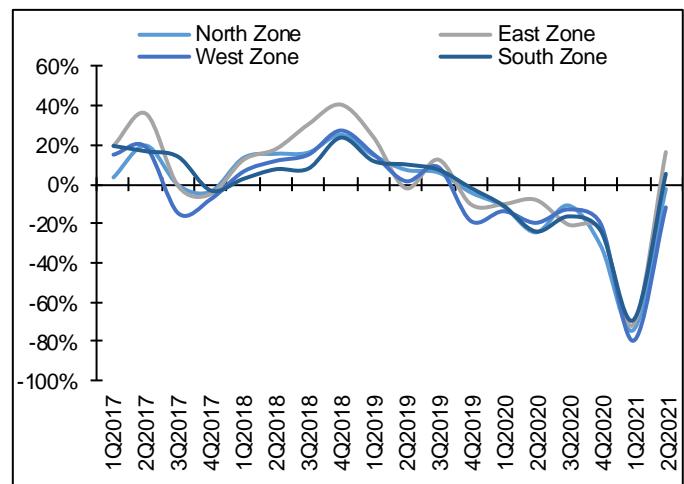
Source: SIAM, I-Sec research

**Chart 16: 2W – Region-wise contribution**



Source: SIAM, I-Sec research

**Chart 17: 2W – Region-wise growth trajectory**



Source: SIAM, I-Sec research

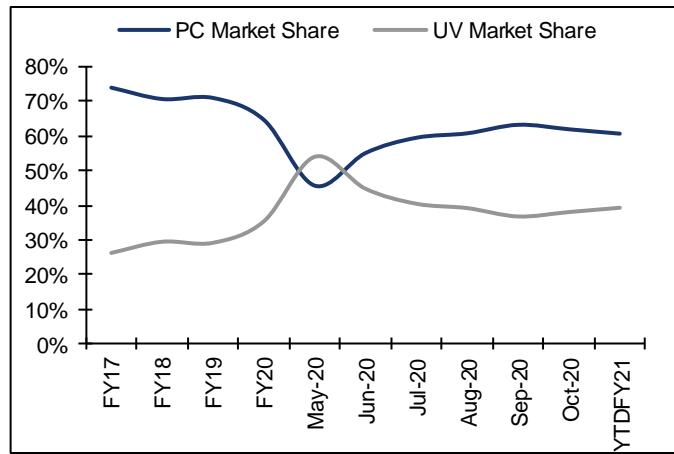
## #5. Premiumisation theme continues to play out, 'scooterisation' expected to revive in CY21

Product availability had a role to play here. Premiumisation of PVs and motorcycles has been helped by availability of better, more mass-market premium products such as Kia Seltos and Royal Enfield *Classic 350*, which proved to be more accessible and easier-to-use premium upgrades for new buyers.

However, apart from product availability and scale-up of supply from companies, there are long-term structural factors on the demand side as well, which have driven demand for utility vehicles and premium motorcycles. Higher household incomes have meant increased spending power while purchasing PVs and 2Ws. In passenger cars, the availability of premium features, at affordable sub-20L price range, is driving UV sales as higher-income households are uptrading from the existing smaller vehicles to compact as well as bigger SUVs. This had shrunk the gap between PC and UV market shares. However, the price hike related to BS-VI transition followed by the hit on disposable income from Covid impact has led to a divergent trend in demand as entry-level motorcycle sales have performed much better vis-a-vis entry-level cars; this is because the affordability gap between an entry level 2W and small car has remained large though the utilitarian aspect of usage remains similar.

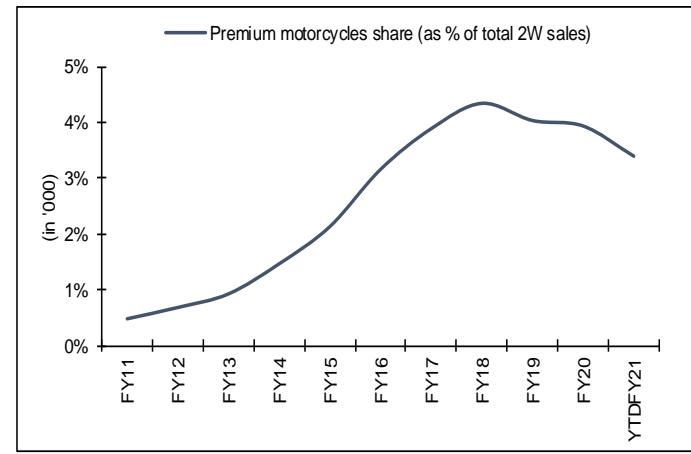
On 2W, premiumisation has seen a steady growth with increased affordability. Launches of more competitive and better models are eating into the economy segment, which has shrunk from 67% share in FY15 to 58% in FY20; premium segment has grown at 13% CAGR from 7% in FY15 to 12% in FY20.

**Chart 18: Trend of converging PC and UV volume share to pick-up in CY21**



Source: SIAM, I-Sec research

**Chart 19: Premium 2W volume share in motorcycles likely to trend back up in CY21**

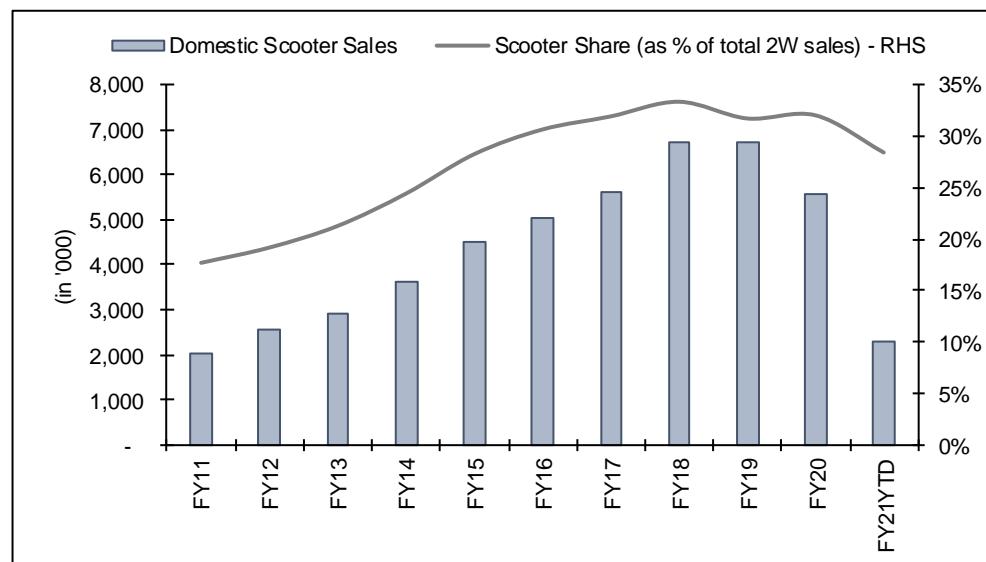


Source: SIAM, I-Sec research

On the demand-side, there are two broad factors leading to 'scooterisation': 1) multiple vehicle ownership driven by higher per capita income and non-head family members (students, women and older men) seeking 2W mobility with scooter considered a gender-neutral option; and 2) urbanisation and expansion of road network in semi-urban and rural areas along with better quality roads (since scooters have low ground clearance).

Adoption of scooters has been helped by availability of more powerful engine options and reduced fuel efficiency gap of modern scooters compared to motorcycles. Scooters are typically not the primary vehicle for households, but a secondary vehicle usually used by family members other than the head of the family. Increasing incomes mean an increase in the number of households with multiple vehicle ownership, hence higher purchase of scooters. Scooter adoption was impacted by the BS-VI transition-led price hikes and later the restricted movement due to Covid pandemic as urban markets were impacted more. We believe, post-Covid, as urban demand comes back faster the 'scooterisation' is likely to revive in CY21.

**Chart 20: 'Scooterisation' trends**

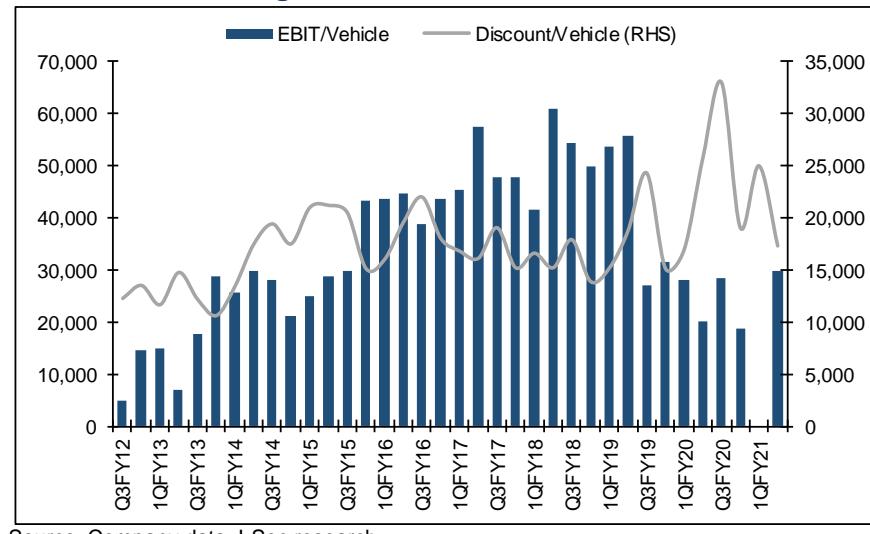


Source: Company data, I-Sec research

## #6. Competitive intensity to remain elevated as OEMs remain aggressive on new launches

Competitive intensity continues to be elevated with discounts/incentives offered by the OEMs even as they benefitted from pent-up demand. At the same time, most launches from CY19 have not been able to maintain their sales momentum in CY20 apart from the SUV launches. Launches of new models (e.g. Kia Motors - currently the fourth-largest OEM by sales) across the spectrum of price points have provided customers a whole host of options coupled with disruptive pricing (e.g. Nissan *Magnite* – compact SUV and hatchback price) and discounts. The new product launch pipeline for CY21 clearly shows an ever-increasing share of SUV with two in three new launches falling in the SUV/Compact SUV category. The highest numbers of new launches are expected from the challengers Kia, Tata Motors, M&M, MG as leaders like Maruti Suzuki, Hyundai are likely to find it difficult to maintain market share amidst rising popularity of SUVs and diversity of consumer choices.

Chart 21: Historic high discounts from Maruti Suzuki



Source: Company data, I-Sec research

Table 5: Top-10 PV models – Discounts/freebies in Dec'20

Sr. No	Company	Model name	Discount/ Benefits (Rs)	On Road Price Mumbai(Rs mn)	Discounts as share of Blended ASP's (%)
1	Maruti Suzuki	Swift	40,000	0.5 - 0.8	3.1%
2	Maruti Suzuki	Baleno	25,000	0.5 - 0.9	1.8%
3	Maruti Suzuki	Wagon R	23,000	0.4 - 0.6	2.3%
4	Maruti Suzuki	Alto	30,000	0.3 - 0.4	4.3%
5	Maruti Suzuki	DZire	31,000	0.5 - 0.8	2.4%
6	Hyundai	Creta	Nil	1.0 - 1.8	Nil
7	Hyundai	Grand i10	55,000	0.5 - 0.8	4.2%
8	Maruti Suzuki	Brezza	35000	0.7 - 1.1	1.9%
9	Kia	Sonet	Nil	0.6 - 1.2	Nil
10	Maruti Suzuki	S-Presso	45,000	0.4 - 0.5	5.0%

Source: Mycarhelpline.com, I-Sec research; Blended average selling prices (ASP) is assumed as average of top and bottom prices. Discounts/Benefits include discounts from dealers and OEMs

**Table 6: SUVs to dominate the new product launch pipeline in CY21**

Tentative launch	Company	Model name	Segment	Expected Price (Rs mn)
Jan-21	Mahindra	eKUV100	Electric SUV	0.8 - 1.0
Jan-21	Tata Motors	Altroz EV	Electric Hatchback	1.0 - 1.2
Jan-21	Tata Motors	Gravitas	SUV	1.6 - 2.1
Feb-21	Honda	Jazz	Hatchback	0.8 - 1.0
Mar-21	Maruti Suzuki	Wagon-R EV	Electric Entry Hatchback	0.8 - 1.0
Mar-21	Volkswagen	Taigun	SUV	1.0 - 1.6
Mar-21	Renault	Kiger	Compact SUV	0.6 - 1.0
Mar-21	Mahindra	S204	SUV	1.1 - 1.5
Apr-21	Haval	H6	SUV	1.5 - 1.6
Apr-21	Hyundai	Kona EV	Electric SUV	2.0 - 2.5
Apr-21	Tata Motors	Tiago EV	Electric Entry Hatchback	0.7 - 1.0
May-21	Citroen	C5 Aircross	SUV	2.0 - 2.5
Jun-21	Mahindra	Scorpio	SUV	1.0 - 1.4
Jun-21	Tata Motors	Hornbill	Compact SUV	0.5 - 0.8
Jul-21	Skoda	Kamiq	SUV	1.5 - 2.0
Jul-21	Mahindra	XUV500*	SUV	1.3 - 1.8
Aug-21	Maruti Suzuki	Jimmy	SUV	1.0 - 1.4
Sep-21	Nissan	Leaf	Electric Hatchback	3.0 - 3.5
Sep-21	Maruti Suzuki	Celerio	Hatchback	0.4 - 0.7
Sep-21	Skoda	Vision X	Sedan	1.0 - 1.5
Oct-21	Renault	City K-ZE	Electric Hatchback	0.6 - 0.8
Oct-21	Hyundai	Creta Seven Seater	SUV	1.5 - 1.8
Oct-21	Toyota	Yaris Cross	Crossover SUV	1.0 - 1.5
Nov-21	MG	Baojun 510	SUV	1.0 - 1.5
Dec-21	Kia	Rio	Premium Hatchback	0.6 - 1.0
Dec-21	Mahindra	eXUV 300	Electric SUV	1.4 - 1.6

Source: I-Sec research, [www.zigwheels.com](http://www.zigwheels.com); \*Major refresh models

## #7. Rising finance penetration to alleviate sticker price shocks

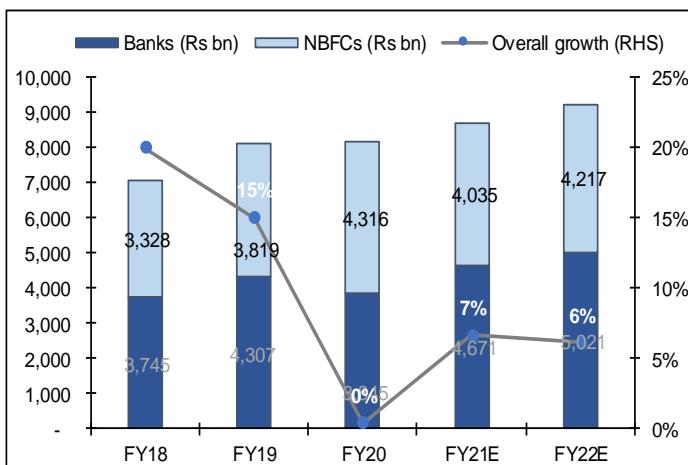
Apart from the economic and demographic foundations in place, the increasing banking and finance penetration is a strong enabler of automotive demand growth. As per Crisil research, the auto finance industry has grown at a CAGR of ~16% between FY14-FY19 and is expected to grow at >20% CAGR FY19-FY22E. As per industry data, share of NBFCs has fallen in CY20 as they faced increased stress as pandemic hit vehicle loan disbursements and LTVs fell by 50-300bps across categories. The increasing penetration of finance is also expected to contribute to sales growth of PVs and 2Ws even as captive financiers have become important players in auto financing along with banks and NBFCs grabbing ~50% market share in new purchases.

**Table 7: Asset quality vulnerable; one-time restructuring may offer relief**

Vehicle Finance Disbursement YoY%	FY20	FY21E	FY22E	Book under Moratorium	Share of Captive
PV: New	-9%	-28%	19%	-25-30%	55%
CV: New	-36%	-42%	62%	-75%	43%
2W	-2%	-17%	14%	-20%	67%
3W	-2%	-44%	44%	-95%	57%
Tractor	-8%	2%	11%	15%	50%
PV: Used	3%	-2%	4%	-40-50%	21%
CV: Used	5%	-33%	8%	-90%	2-3%

Source: Crisil Research; I-Sec research

**Chart 22: Share of NBFCs in auto financing expected to improve**



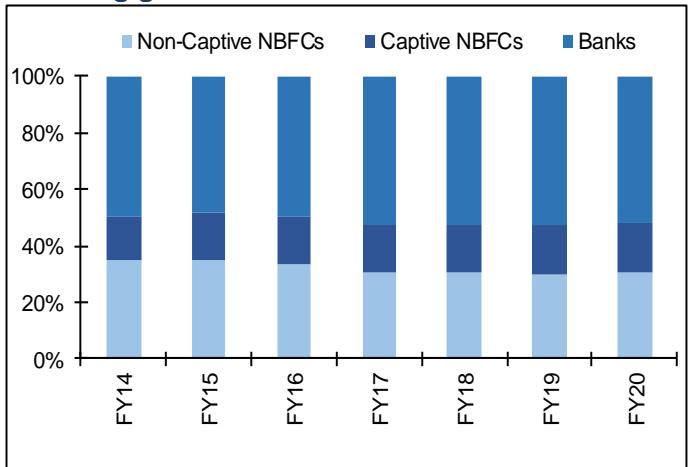
Source: Crisil research, I-Sec research

**Chart 23: Share of NBFCs in auto financing shrinks on credit tightening**

Market Share of NBFCs	FY18	FY20
PV: New	28%	25-26%
CV: New	46%	47-48%
2W	60%	59-60%
3W	42%	43%
Tractor	56%	54%
PV: Used	76%	76%
CV: Used	89%	89-90%

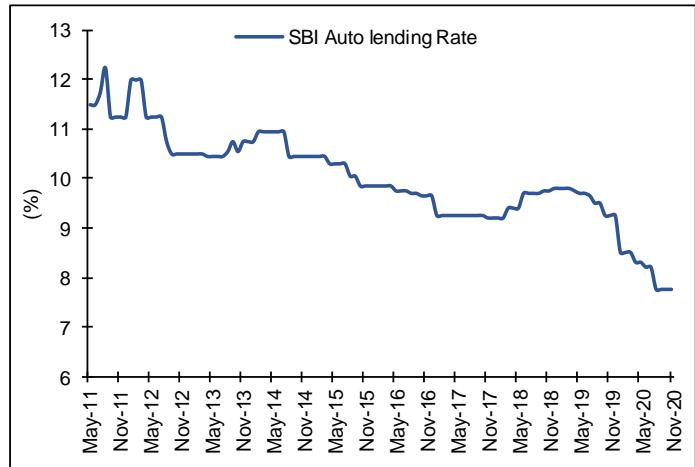
Source: Crisil research, I-Sec research

**Chart 24: Share of captive NBFCs in auto financing grew from 13% in FY13 to 17% in FY19**



Source: Crisil research; I-Sec research

**Chart 25: State Bank of India (SBI) auto lending trend**



Source: SBI website, I-Sec research

## #8. Scrappage policy, rising freight to support M&HCV segment

As per media reports, the government has initiated talks with the industry players on policy for trucks older than 10/15 years to be scrapped in order to boost fresh vehicle demand. The scheme is expected to impact 1-1.2mn trucks sold 15 years ago or earlier. The OEMs are optimistic about the prospects of the scheme and have been actively lobbying for the same since mid-CY19 as the industry has witnessed volume decline of ~75% since the FY18/FY19 peak. A well-structured scrappage policy could have a positive effect on new vehicle purchases as the current fleet capacity utilisation remains ~60-65%. Also, the government has yet to define the criteria for determining end-of-life of the vehicle, or the type of incentive to be disbursed, i.e. in the form of cash rebate or road tax rebate, or any other form. Rising demand for e-commerce and resumption of mining activities would aid demand revival in both tipper as well as haulage segments in CY21. We expect increased investments in infrastructure to also aid revival of new vehicle demand in M&HCV segment.

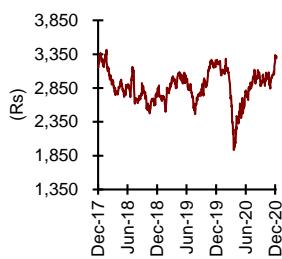
**Table 8: Stock recommendations**

BUY	ADD	HOLD	REDUCE	SELL
Bajaj Auto	Ashok Leyland	Hero Motocorp	Bharat Forge	Maruti Suzuki
TVS Motors	Eicher Motors		Wabco Ltd	
M&M			Bosch	
Tata Motors				
Asahi India				
Balkrishna				
Industries				
CEAT				
Mahindra CIE				
Motherson Sumi				
Varroc Engineering				

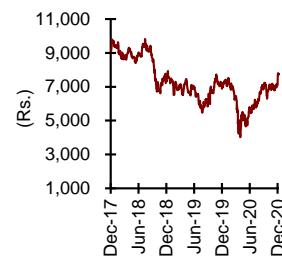
Source: I-Sec research

## Price charts

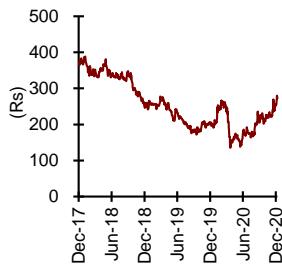
Bajaj Auto



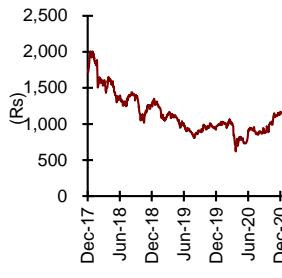
Maruti Suzuki



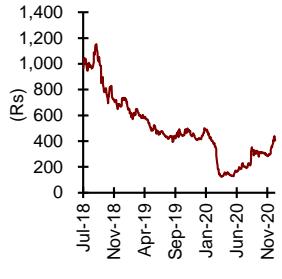
Asahi India



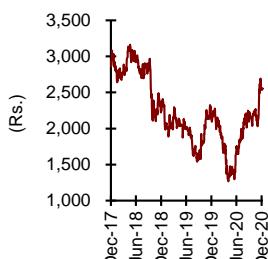
CEAT



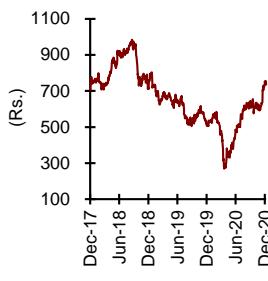
Varroc Engineering



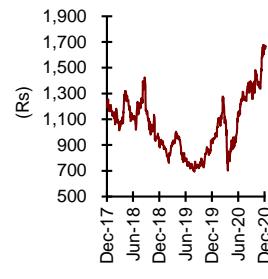
Eicher Motors



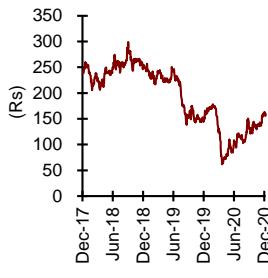
M&amp;M



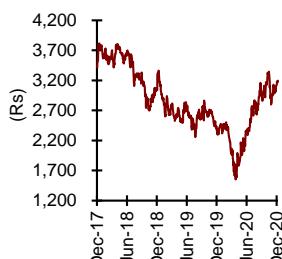
Balkrishna Ind



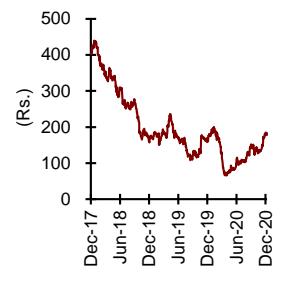
Mahindra CIE



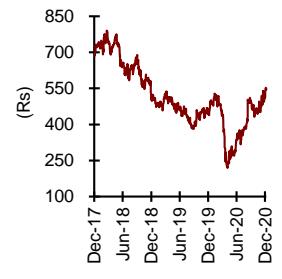
Hero Motocorp



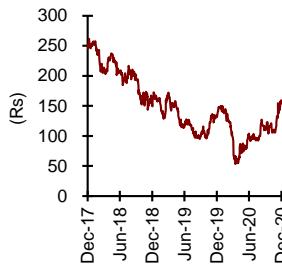
Tata Motors



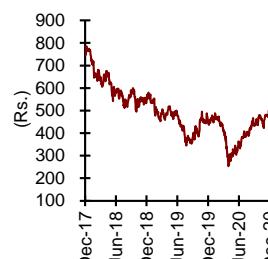
Bharat Forge



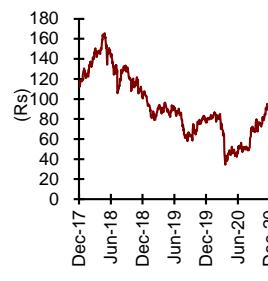
Motherson Sumi



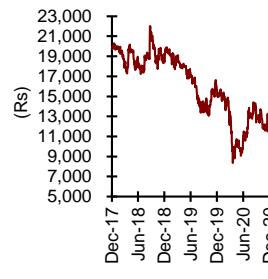
TVS Motors



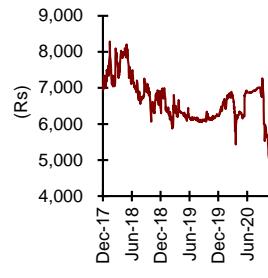
Ashok Leyland



Bosch



Wabco Ltd



Source: Bloomberg

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