

Automobiles

Channel Check Update

December 27, 2020

Exhibit 1: PL Coverage

Company Name	Rating	CMP (Rs)	TP (Rs)
Ashok Leyland	BUY	95	100
Bharat Forge	HOLD	527	439
Bajaj Auto	Hold	3,375	3,108
CEAT	Acc	1,060	1,223
Eicher Motors	Acc	2,437	2,598
Exide Industries	BUY	183	234
Hero Motocorp	Acc	3,073	3,282
M&M	BUY	711	826
Maruti Suzuki	BUY	7,446	7,642
Motherson Sumi	BUY	154	165
Tata Motors	HOLD	176	146
TVS Motors	Sell	480	386

Source: Company, PL

A month of low discounts, demand trend mixed

Quick Pointers:

- Positive demand trends in PV/CV/tractor, 2Ws continue to be weak.
- Year end discounts lower in PVs (by ~20%) while 2W (by ~10%).
- Royal Enfield - Meteor bookings at ~20k units (v/s 12-13k in Nov'20). RE to take ~2% price hike from Jan-21.

Our interactions with leading channel partners indicate mixed demand momentum. PV demand remained intact even in Dec-20 despite moderate discounts (~18-20% lower YoY) and limited supplies (leading to higher waiting period). On the other hand, 2W demand continued to remain under pressure (down by 20-22% YoY) led by lower year end discounts. CV demand remained stable led by optimum fleet utilization levels and freight rates. With the anticipation of price hike of up to Rs20k from Jan-21 and better finance support, tractor sales remained on the positive trajectory with growth of 5-10% YoY. As per dealer source, RE will be taking ~2% price increase from Jan'21.

View: Prefer AL and MM among OEMs

- AL (CMP Rs95, TP Rs100)**- We believe M&HCV volumes will recover by H1FY22 based on i) economic recovery benefitting demand from segments like Infra, Mining and E-commerce and ii) AL de-risking M&HCV through - a) New LCV launches to gain market share and b) Increased focus on spares and exports business.
- MM (CMP Rs711, TP Rs826)**- We believe MM is well placed to grow in FY21/22 as FES segment has robust outlook led by healthy farm sentiments and strong rural presence benefitting UV sales. Also, focus on the core intensified with improved capital allocation, plans for loss making subsidiaries (exit or turnaround) and preference for rural exposure.

Exhibit 2: Snapshot of volumes for Dec-20

Company Sales	Dec-20	Dec-19	YoY gr. (%)	Nov-20	MoM gr. (%)
Maruti Suzuki	1,24,000	1,33,296	(7.0)	1,53,223	(19.1)
Mahindra & Mahindra	58,550	57,214	2.3	75,457	(22.4)
Automotive	36,550	39,224	(6.8)	42,731	(14.5)
Tractors	22,000	17,990	22.3	32,726	(32.8)
Hero MotoCorp	4,25,000	4,24,845	0.0	5,91,091	(28.1)
Bajaj Auto	3,59,000	3,36,055	6.8	4,22,240	(15.0)
Ashok Leyland	11,200	11,168	0.3	10,659	5.1
TVS Motor	2,37,600	2,31,571	2.6	3,22,709	(26.4)
Eicher Motors					
Royal Enfield	60,000	50,416	19.0	63,782	(5.9)
VECV	3,955	5,042	(21.6)	3,710	6.6

Source: Industry, PL

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Exhibit 3: Waiting period for key models

OEMs	Models	Waiting period
MSIL	Brezza	3-4 weeks
MSIL	Ertiga	3-4 weeks
Hyundai	New Creta	4-6 months
Hyundai	Venue	2-3 months
MM	XUV300	3-4 weeks
TTMT	Altroz	7-8 weeks
TTMT	Nexon	7-8 weeks

Source: Industry, PL

PV: Demand momentum intact despite lower discounts

- **PV retails expected to grow 8-10% YoY in Dec'20.** Growth momentum sustained despite challenges like i) limited supply leading to lower inventory, ii) moderate discounts (~18-20% lower discounts YoY), iii) end of marriage season in 2nd half of the month (which contributed 35-40% of overall demand till first half).
- **We noted an increase of exchange buyers in PVs to 20-22%** (v/s 16-18% in Sep'20) while first time buyers declined to 49-51% (v/s ~55% in November). However, we believe the decline was led by customer's behavior of exchanging vehicle during the year end (which is a usual phenomenon) and share of first time buyers should again increase from next month onwards.
- **Waiting period for MSIL's Brezza and Ertiga** still at 3-4 weeks while for other model has moderated in Dec. Among other OEMs wait period has remained stable for Hyundai Creta (4-6 months) while the same is 2-3 months for Venue. MM XUV300 has waiting of 3-4 weeks while TTMT Altroz and Nexon has waiting of 6-8 weeks.
- **Despite plant shut down due to lockdown, MSIL will be taking maintenance shut down from 26th Dec, 2020 – 2nd Jan, 2021.**

2W: RE Meteor bookings at ~20k, ~2% price hike indicated

- **2W retails continue to struggle with decline of 20-22% YoY.** This was led by i) educational institutions and corporates remained shut, ii) finance rejection rate for customers increased to 20% (v/s 10% pre-COVID), iii) moderate discounts v/s last year (almost nil).
- **125CC+ segment remain better off v/s lower CC models.** Among 2W OEMs, we expect retails for HMCL/HMSI to decline by 28-30%, TVSL by 26-28% and BJAUT by 23-25%.
- **Supply challenges in RE eased off (20% higher supplies v/s November).** Inventory across other OEMs too remained comfortable (stable MoM) wherein inventory with HMCL/HMSI stands at 25-30 days while the same stands at 20-25 days for BJAUT and TVS.
- **Meteor booking reached ~20k units (v/s 12k-13k during November) while H'ness bookings declined to ~1k units (v/s 4.8k-5k in November).** Our channel check suggests; Meteor now contributes around 15-17% of RE sales wherein share of first time buyers is at 55-60%.
- **As per dealer source, RE will be taking price increase of ~2% from Jan.**

CV: LCV/ICV/Tippers outperformance continue

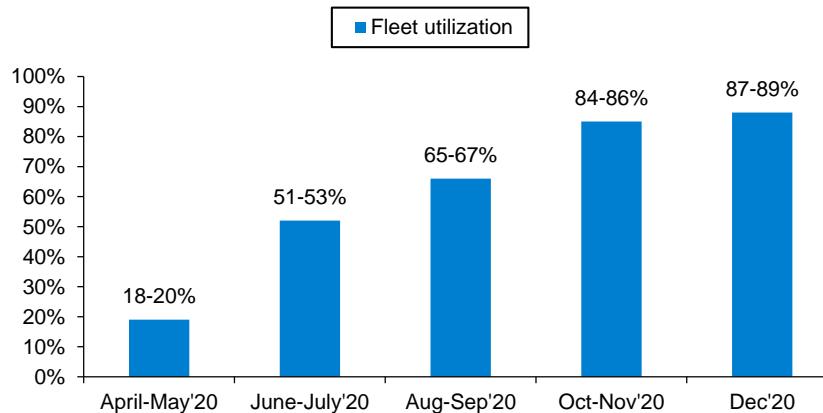
- We note sequential improvement in inquiries and sales in HCV segment backed by healthy demand from construction (bulk goods like cement). Importantly the demand increase is led by both replacement (~70-80%) as well as new vehicle additions (20%).

As far as the industry is concerned I think the worst is behind us. Numbers are still low, but decline has stopped. We are optimistic about 2021. We expect replacement demand is going to be very high

Vinod Aggarwal, MD & CEO-VECV

- Fleet operator's sentiments continue to improve as i) utilization level increase at ~90% now, ii) ~5% increase in freight rates in Nov (v/s Sep) and iii) improved financing availability (though not fully back).
- We note ~2-3% increase in discounts in November as OEMs chase market share in relatively weak demand scenario. However, it's not at an alarming level as it remained almost nil in past 2 quarters.
- However, ICVs and LCVs segment continue to see traction with healthy demand from major end user industries (ex-textiles).

Exhibit 5: Persistent increase in fleet utilization bode well for M&HCVs



Source: PL, Industry

Tractor: Some moderation in growth but still positive

- Tractor growth momentum too remains positive with expected growth of 0-5% YoY led by i) restoration of inventory and ii) pre-buying in the anticipation of price hike of up to Rs20k from Jan'21 and iii) better finance support (LTV up to 95% and lower interest rates at ~8% v/s 10-12% normally)
- The growth was partially impacted due to i) lower paddy yield (~50% less v/s normal), ii) lower demand from construction segment due to overloading restriction, iii) muted government purchases and iv) no discounts. We believe these challenges are temporary and will keep demand stable till Mar'21
- Our channel check suggests inventory catch up during the month with dealer inventory are now at pre-COVID level of 15-20 days while discounts are expected to remain negligible during Q4.

Exhibit 6: Valuation Summary

Company Names	Rating	CMP (Rs)	TP (Rs)	Sales (Rs bn)				EBITDA (Rs bn)				PAT (Rs bn)				EPS (Rs)				RoE (%)				PE (x)			
				FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E
Ashok Leyland	BUY	95	100	174.7	143.9	193.7	219.0	11.7	5.5	18.6	22.2	3.4	-2.0	9.3	10.9	1.2	-0.7	3.2	3.7	4.4	-2.8	13.0	13.6	81.6	-143.0	29.9	25.7
Bharat Forge	HOLD	527	439	80.6	70.1	92.9	106.4	11.1	7.9	15.5	19.2	4.1	2.4	9.4	11.7	8.8	5.1	20.2	25.2	7.8	4.5	16.4	17.7	59.7	102.4	26.0	20.9
Bajaj Auto	Hold	3,375	3,108	299.2	265.2	306.6	330.6	51.0	44.2	50.5	52.9	54.4	46.4	52.4	54.7	188.1	160.4	181.0	189.1	26.1	22.4	23.5	23.0	17.9	21.0	18.6	17.8
CEAT	Acc	1,060	1,223	67.8	67.1	79.2	87.1	7.2	7.7	9.4	10.7	2.6	2.8	3.1	3.5	64.5	69.8	76.6	86.5	9.2	9.4	9.5	9.9	16.4	15.2	13.8	12.3
Eicher Motors	Acc	2,437	2,598	91.5	90.7	111.4	125.8	21.8	18.8	28.2	33.9	18.3	14.3	22.5	27.0	67.0	52.6	82.6	99.1	19.3	13.6	18.8	19.2	36.4	46.4	29.5	24.6
Exide Industries	BUY	183	234	98.6	93.3	107.8	118.3	13.6	12.7	16.3	18.1	8.4	7.1	9.8	11.2	9.9	8.4	11.5	13.2	13.7	11.1	14.1	14.9	18.5	21.8	16.0	13.9
Hero Motocorp	Acc	3,073	3,282	288.4	297.3	329.0	351.4	39.6	37.7	45.3	50.1	31.0	27.5	34.6	38.7	154.6	137.6	173.0	193.3	22.9	18.9	22.1	22.5	19.9	22.3	17.8	15.9
Mahindra & Mahindra	BUY	711	826	454.9	455.5	515.4	577.2	58.0	63.9	64.5	73.8	21.9	39.7	42.2	47.9	18.4	33.3	35.3	40.2	6.4	11.2	11.0	11.6	38.7	21.4	20.1	17.7
Maruti Suzuki	BUY	7,446	7,642	756.1	739.9	830.3	900.8	73.0	74.4	96.0	117.8	56.5	58.7	76.4	94.2	187.1	194.2	253.0	311.8	11.9	11.9	14.8	17.1	39.8	38.3	29.4	23.9
Motherson Sumi	BUY	154	165	635.4	624.8	736.1	820.6	52.0	42.5	64.5	79.0	11.7	8.4	20.3	26.0	3.7	2.7	6.4	8.2	10.4	7.1	15.9	18.1	41.6	57.9	24.0	18.7
Tata Motors	HOLD	176	146	2,610.7	2,696.4	2,867.5	3,085.6	239.1	318.6	351.9	368.4	-90.9	31.6	127.3	133.9	-25.3	8.8	35.4	37.2	-14.8	4.9	17.5	15.6	-7.0	20.1	5.0	4.7
TVS Motors	Sell	480	386	164.2	158.1	179.2	193.6	13.5	13.6	16.7	18.0	6.2	5.9	8.3	9.3	13.0	12.5	17.5	19.6	17.7	15.5	19.2	18.5	36.9	38.5	27.3	24.5

Source: Company, PL

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	BUY	100	84
2	Bajaj Auto	Hold	3,108	3,006
3	Bharat Forge	Hold	439	500
4	CEAT	Accumulate	1,223	1,148
5	Eicher Motors	Accumulate	2,598	2,346
6	Exide Industries	BUY	234	194
7	Hero Motocorp	Accumulate	3,282	2,894
8	Mahindra & Mahindra	BUY	826	729
9	Maruti Suzuki	BUY	7,642	7,118
10	Motherson Sumi Systems	BUY	165	140
11	Tata Motors	Hold	146	136
12	TVS Motors	Sell	386	422

PL's Recommendation Nomenclature

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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