

Automobiles

Channel Check Update

Supply Constraints to weigh down on recovery

Quick Pointers:

- Semiconductor shortage leading to supply constraints esp. in PVs
- CVs- Production levels were up by ~25% in line with pickup in demand.

Our interactions with leading channel partners indicate pickup in enquiry levels, thereby raising our hopes for upcoming festive season. In Aug month inquiries for 2Ws/PVs showed positive momentum in festival bound states. CV demand sentiments are also showing the signs of recovery with improvement in fleet utilization rate (at 70-75% v/s 55-60% in May-21), freight availability as well as an aggressive stance of financiers leading to easier finance availability for the mid to large size fleet operators. On tractors' side, we are seeing seasonal slowdown for agri led demand. However, amidst improving demand sentiments OEMs are facing the supply issues primarily due to chip shortages which is adversely impacting PV demand.

While the overall demand scenario remains encouraging, it is expected to further improve as we approach festive season. The big concern remains on demand fulfilment, as we expect semiconductor issue to further aggravate in September. Among segments we believe, CVs to see strong cyclical recovery (led by healthy fleet utilization and demand from infra segment) from 2H onwards. Furthermore, monsoon progress remains a key monitor for rural demand moving forward.

View: Prefer AL and MM among OEMs

- **AL (CMP Rs120, TP Rs151)** - We believe MHCV volumes will recover by H2FY22 based on i) economic recovery benefitting demand from segments like Infra, Mining and E-commerce and ii) AL de-risking MHCV through- a) New launches in LCV to gain market share and b) Increased focus on spares and exports business.
- **MM (CMP Rs775, TP Rs961)** - We believe MM is well placed to grow in FY22 owing to healthy farm sentiments benefitting tractors and new launches benefitting UV sales. Also, improved capital allocation and turnaround of loss making subsidiaries will aid earnings.

Exhibit 2: Snapshot of volumes for Aug-21

Company Sales		Aug-21	Aug-20	YoY gr. (%)	Jul-21	MoM gr. (%)
Passenger & Commercial Vehicle	Maruti Suzuki	121,330	124,624	(2.6)	162,462	(25.3)
	Mahindra & Mahindra	65,350	54,884	19.1	70,212	(6.9)
	Automotive	40,850	30,426	34.3	42,983	-5.0
	Tractors	24,500	24,458	0.2	27,229	-10.0
	Tata Motors	52,874	34,179	54.7	54,033	-2.1
	CVs	26,900	16,150	66.6	23,848	12.8
	PVs	25,974	18,029	44.1	30,185	-14.0
Two-Wheelers	Ashok Leyland	10,650	6,325	68.4	8,650	23.1
	Hero MotoCorp	510,000	584,456	(12.7)	454,398	12.2
	Bajaj Auto	402,700	356,199	13.1	369,116	9.1
	TVS Motor	306,700	287,398	6.7	278,855	10.0
	Eicher Motors					
	Royal Enfield	46,500	50,144	(7.3)	44,038	5.6
	VECV	5,275	2,477	113.0	4,271	23.5

Source: SIAM, PL

August 30, 2021

Exhibit 1: PL Coverage

Company Name	Rating	CMP (Rs)	TP (Rs)
Ashok Leyland	BUY	122	151
Bharat Forge	UR	760	NA
Bajaj Auto	HOLD	3,720	3,919
CEAT	HOLD	1,287	1,383
Eicher Motors	Acc	2,554	2,737
Endurance Tech.	BUY	1,677	1,832
Exide Industries	BUY	162	191
Hero Motocorp	Acc	2,726	3,266
M&M	BUY	792	961
Maruti Suzuki	Acc	6,797	7,684
Motherson Sumi	BUY	219	304
Tata Motors	Reduce	292	255
TVS Motors	BUY	521	669

Source: Company, PL

Acc=Accumulate / UR = Under Review

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Wholesales estimate for Aug-21

- **PV-** MSIL/TTMT/MM (automotive) expected to decline by 25/14/5% MoM.
- **CV-** We expect AL/TTMT wholesales to grow by ~23/13% MoM respectively.
- **2W-** Estimate for BJAUT (incl 3W) at 402.7k (+9% MoM), HMCL at 510k (+12% MoM), TVS (incl 3W) at 306.7k (+10% MoM) and RE at 46.5k (+6% MoM).
- **Tractor-** We expect MM tractor sales to decline by 10% MoM at 24.5k units.

PV: Impacted by Semiconductor shortage

- **Rising inquiries:** Though Apr and May-21 were affected by state wise lockdowns, Jun, Jul and Aug-21 have seen an increase in enquiries and bookings.
- **Supply related issues affecting inventory levels:** Inventory days for the market leader is down by half vs pre-COVID levels. This is due to global semiconductor shortage. Though dealerships are witnessing demand, supply is down by nearly 40%.
- **Demand for CNG models** is witnessing growth (Ertiga CNG has a waiting period of 5-6 months) owing to rising fuel prices.
- **Sales have been affected in some regions of West India** as dealerships were low on inventory during festive season in Aug-21 (Raksha Bandhan and Janmashtmi). If supply shortage continues in September, there would be a significant loss of festival sales.
- Also, the trend of **individuals avoiding public transportation** and purchasing their own vehicles sustains, majorly in entry-level segment.

CV: Rebound expected MHCV volumes

- **Demand expectation:** We expect CV sales to grow MoM led by an improvement in demand for MHCVs and opening up of the economy. Volumes for MHCV are picking up on the back of rising infrastructural activities and increasing freight availability, while LCV volumes are supported by e-com segment. Only the bus segment remains affected. Inventory levels are ~25-30 days.
- **Price increase:** We are expecting a round of price increase in the beginning of Oct-21, as input costs remain elevated.
- **Financing:** Financing trends remain strong and financiers are aggressive on CV funding to larger fleet operators. However, they are still cautious with smaller ones.

2W: Laggard amongst the pack

- Though enquires have not improved by significant amount MoM, **sales volumes could grow moderately** owing to some festivals (Rath yatra, Eid and Onam)

- We expect **mass-market OEM- Hero Motocorp to grow by 12% MoM**, while Royal Enfield sales are expected to grow by 6% MoM. Bajaj Auto's volumes to witness growth on the back of strong exports.
- Inventory levels across segments have inched up ahead of the festive season and currently stand at ~6 weeks of sales.
- There has been growing interest in EVs amidst the increasing fuel prices and launch of Ola.
- Exports to remain robust with gradual opening up of economies

Tractor: Growth to moderate on the higher base

- Our interaction with leading channel partners indicate **tractor wholesale growth moderated in Aug-21 on high base along with seasonal factors in the month of Aug. Price hikes by OEMs also seem to have impacted the demand.**
- We expect M&M tractors to decline at 7% MoM and Escorts to decline by 4% MoM.

Exhibit 3: Valuation Summary

Company Names	S/C Rating	CMP (Rs)	TP (Rs)	MCap (Rs bn)	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	S BUY	122	151	357.3	174.7	153.0	207.3	281.6	11.7	5.4	13.4	27.6	3.4	-3.0	4.8	15.6	1.2	-1.0	1.6	5.3	4.4	-4.3	6.7	19.7	104.3	-117.3	74.4	22.9
Bharat Forge	C UR	760	NA	353.8	80.6	63.4	95.6	110.3	11.1	8.6	16.9	21.8	4.1	2.4	9.1	12.4	8.8	5.2	19.5	26.6	7.8	4.5	15.7	18.4	86.2	146.5	39.0	28.6
Bajaj Auto	S HOLD	3,720	3,919	1,076.6	299.2	277.4	322.4	352.8	51.0	49.3	57.6	63.8	54.2	48.6	58.3	63.7	187.4	168.0	201.4	220.2	26.0	21.5	22.8	24.2	19.9	22.1	18.5	16.9
CEAT	C HOLD	1,287	1,383	817.7	67.8	76.1	91.3	100.8	7.2	9.8	9.2	11.1	3.0	3.6	3.1	3.7	75.1	88.5	76.8	92.2	10.7	11.4	9.1	10.2	17.1	14.5	16.8	14.0
Eicher Motors	C Acc	2,554	2,737	698.0	91.5	87.2	105.5	127.4	21.8	17.8	23.9	32.6	18.3	13.5	19.1	26.5	67.0	49.3	69.9	96.9	19.3	12.6	15.7	19.0	38.1	51.8	36.5	26.3
Endurance Tech.	C BUY	1,677	1,832	235.9	69.2	65.0	83.4	99.9	11.3	9.9	13.4	17.1	5.7	5.0	6.7	9.0	40.2	35.4	47.3	64.3	20.3	15.4	17.9	20.6	41.7	47.4	35.5	26.1
Exide Industries	S BUY	162	191	137.3	98.6	100.4	113.6	126.0	13.6	13.6	14.6	16.7	8.4	7.6	7.8	9.4	9.9	8.9	9.2	11.0	13.7	11.5	10.9	12.1	16.3	18.1	17.6	14.7
Hero Motocorp	S Acc	2,726	3,266	544.7	288.4	308.0	344.8	383.8	39.6	40.2	42.5	50.0	31.0	29.6	31.3	37.1	154.6	148.4	156.8	185.6	22.9	20.2	20.0	22.0	17.6	18.4	17.4	14.7
Mahindra & Mahindra	S BUY	792	961	945.7	454.9	445.7	519.9	582.8	58.0	69.8	72.9	84.1	21.9	22.3	43.3	48.2	18.4	18.7	36.2	40.3	6.4	6.5	12.0	12.3	43.1	42.4	21.9	19.6
Maruti Suzuki	S Acc	6,797	7,684	2,053.2	756.1	703.3	841.5	961.6	73.0	53.5	71.1	100.5	56.5	42.3	58.4	83.5	187.1	140.0	193.3	276.5	11.9	8.5	10.9	14.3	36.3	48.5	35.2	24.6
Motherson Sumi	C BUY	219	304	691.6	607.3	573.7	752.1	868.4	46.5	43.6	81.6	101.7	8.3	7.7	27.6	34.3	2.6	2.4	8.7	10.9	7.5	6.5	20.5	21.9	82.9	89.4	25.0	20.2
Tata Motors	C Reduce	292	255	1,117.9	2,610.7	2,497.9	3,178.0	3,560.0	239.1	357.8	441.1	512.9	-90.9	36.5	69.3	97.4	-25.3	9.5	18.1	25.4	-14.8	6.2	11.8	14.5	-11.6	30.6	16.1	11.5
TVS Motors	S BUY	521	669	247.3	164.2	167.5	214.3	244.2	13.5	14.3	19.3	23.2	6.2	6.1	9.9	12.7	13.0	12.9	20.8	26.7	17.7	15.7	21.7	23.0	40.0	40.4	25.0	19.5

Source: Company, PL

S=Standalone / C=Consolidated / Acc=Accumulate / UR=Under Review

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	BUY	151	130
2	Bajaj Auto	Hold	3,919	3,853
3	Bharat Forge	UR	-	767
4	CEAT	Hold	1,383	1,367
5	Eicher Motors	Accumulate	2,737	2,617
6	Endurance Technologies	BUY	1,832	1,716
7	Exide Industries	BUY	191	179
8	Hero Motocorp	BUY	3,266	2,772
9	Mahindra & Mahindra	BUY	961	758
10	Maruti Suzuki	Accumulate	7,684	7,165
11	Motherson Sumi Systems	BUY	249	207
12	Tata Motors	Reduce	255	317
13	TVS Motors	BUY	669	562

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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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