

PVs is tackling the chip crisis, CVs and 2Ws on recovery path

- Automobile sector is facing a double sword impact due to shortage of Semiconductor and rising RM and fuel cost. Although retail demand is improving MoM, worsening Chip shortage crisis continued to hit dispatches especially in PV and 2W (premium segment), However CVs and 2W to see MoM improvement.
- In PVs semiconductor shortage deepened amid mounting coronavirus infections in SE Asia, especially Malaysia and Vietnam which are back-end chip testing and packaging regions. Many OEMs such as MSIL, M&M, Toyota, have revised downward their dealer target due to inability to supply vehicles. Retail demand is 30-40% higher than wholesale resulting in the inventory **much below normal level**. We expect MSIL to dispatch ~131k units (+5.1% YoY) in Aug-21 and M&M (Automotive) to dispatch 29.6k units (-2.6%YoY).
- 2Ws demand is showing signs of recovery led by festive demand ONAM and Eid, resumption of offices in urban cities (supporting scooter sales) and improved financial support (low down payment and better LTV 85-90%). Inventory level has come down to normal level and expect dispatches to accelerate for upcoming festive season. We expect Bajaj Auto/Heromotocorp/Eicher(RE) to witness 1/12/9% MoM growth respectively
- Tractor demand is weak (usually a lean period), high channel inventory and rising tractor prices are key laggards. **In CV demand is improving MoM, Multi axle vehicle, tipper and ICV are showing good traction.** Demand in southern market is better than other region.
- **Tyres;** Demand for 2W and PCR tyres are strong. However, T&B segment is yet to catch up due to low fleet utilization, postponement of replacing tyre decisions due to fear of 3rd wave and weak financial health of fleet operators. Rising rubber prices is a concern for margin, domestic manufacturers are continuously taking price hike to dilute the impact
- **In Batteries, Inverter battery on high demand (WFH and schools continue to be online).** Amara doing better than Exide in terms of product availability. Industrial segment lithium Ion batteries is gaining traction and existing player are facing tough competition from players like Exicom, Coslight, Vision, Shaft and Panasonic.
- **Maintain a positive stance on the sector despite short term hiccups.** Demand for PVs is strong and dispatches to accelerate once supply shortage eases out. In the 2Ws segment the companies which have high exposure in export to outperform. In CVs, despite short term hiccups, growth momentum to be strong for medium to long term, driven by pick-up in infra, construction and mining activities. We believe, **Margin expected to return to normal level from H2FY22 led by softening in commodity prices, lower discount level, better operating leverage and price hike.** Our top picks are Maruti, Ashok Leyland, and TVS Motor in large Cap Craftsman Auto, Sandhar tech and Minda corp in small cap.

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Exhibit 1: Volume Snapshot for Aug-21E

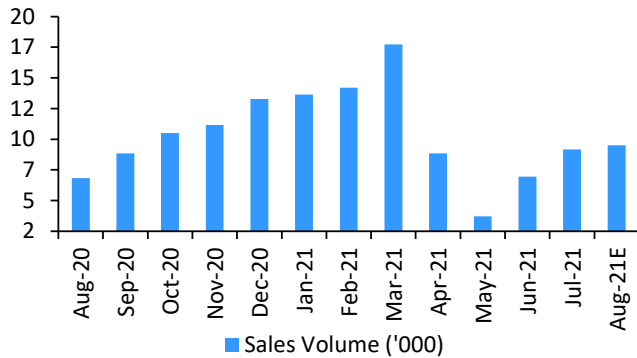
Company	Aug-21E	Aug-20	YoY (%)	Jul-21	MoM (%)
Two/Three Wheeler					
Bajaj Auto	3,72,000	3,56,199	4.4	3,69,116	0.8
Motorcycle	3,30,000	3,21,058	2.8	3,30,569	(0.2)
3 Wheeler	42,000	35,141	19.5	38,547	9.0
Eicher - RE	48,000	50,144	(4.3)	44,038	9.0
Hero MotoCorp	5,10,000	5,84,456	(12.7)	4,54,398	12.2
TVS Motors	2,86,500	2,87,398	(0.3)	2,78,855	2.7
Total	12,16,500	12,78,197	(4.8)	11,46,407	6.1
Four Wheeler					
Maruti Suzuki	1,31,000	1,24,624	5.1	1,62,462	(19.4)
M&M (Automotive)	29,644	30,426	(2.6)	42,983	(31.0)
Tata Motors	22,000	18,583	18.4	30,185	(27.1)
Total	1,82,644	1,73,633	5.2	2,35,630	(22.5)
Commercial Vehicles					
Ashok Leyland	9,000	6,325	42.3	8,650	4.0
Eicher - VECV	3,800	2,440	55.7	4,193	(9.4)
SML Isuzu	450	320	40.6	551	(18.3)
Tata Motors	23,800	16,837	41.4	21,796	9.2
Total	37,050	25,922	42.9	35,190	5.3
Tractors					
Escorts	6,360	7,268	(12.5)	6,564	(3.1)
M&M Tractors	22,700	24,458	(7.2)	27,229	(16.6)
Total	29,060	31,726	(8.4)	33,793	(14.0)

Source: Company, DART

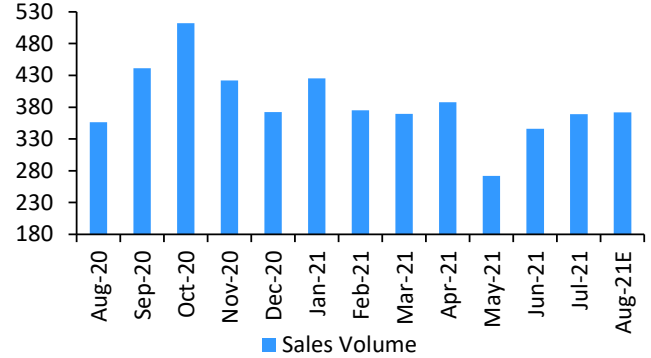
Exhibit 2: Commodity trend

Commodities	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	Apr-21	May-21	Jun-21	Jul-21	Aug-21
CRC (USD/MT)	4,257	3,947	4,485	5,095	5,575	6,269	6,024	6,535	6,200	6,367	6,486
% QoQ /MoM%	(1.16)	(7.28)	13.62	13.62	9.42	12.44	6.07	8.48	(5.13)	2.69	1.87
HRC India (Rs/MT)	36,578	38,931	46,354	55,295	64,725	66,900	64,725	66,000	70,000	67,000	67,500
% QoQ /MoM%	(5.40)	6.43	19.07	19.29	17.05	3.36	(3.25)	1.97	6.06	(4.29)	0.75
Aluminium (USD/MT)	1,691	1,501	1,706	1,917	2,096	2,399	2,309	2,432	2,447	2,498	2,592
% QoQ /MoM%	(3.72)	(11.22)	13.68	12.34	9.33	14.47	5.40	5.35	0.59	2.08	3.78
Lead (USD/MT)	1,843	1,679	1,873	1,902	2,011	2,127	2,006	2,178	2,191	2,338	2,416
% QoQ /MoM%	(9.76)	(8.87)	11.52	1.57	5.73	5.77	2.96	8.62	0.58	6.69	3.35
Brent (USD/bbl)	51	31	43	45	61	69	65	68	73	74	70
% QoQ /MoM%	5.29	(10.12)	8.59	16.15	4.09	6.39	(0.83)	4.95	7.49	1.81	(6.14)
RSS4 (Rs/MT)	13,423	12,066	13,102	15,219	15,841	16,853	16,682	17,010	16,905	16,850	17,722
% QoQ /MoM%	5.29	(10.12)	8.59	16.15	4.09	6.39	0.26	1.96	(0.62)	(0.32)	5.18
Palladium USD/Oz	2,284	1,965	2,168	2,348	2,405	2,789	2,770	2,878	2,721	2,734	2,559
% QoQ /MoM%	27.42	(13.98)	10.34	8.30	2.44	15.97	11.97	3.90	(5.45)	0.46	(6.40)
Platinum USD /troy Oz	901	790	902	935	1,161	1,182	1,208	1,212	1,124	1,087	1,010
% QoQ /MoM%	(0.54)	(12.24)	14.06	3.69	24.15	1.84	2.30	0.35	(7.29)	(3.29)	(7.08)
Copper USD/MT	5,632	5,366	6,524	7,178	8,501	9,702	9,277	10,136	9,632	9,451	9,361
% QoQ /MoM%	(4.39)	(4.73)	21.58	10.02	18.44	14.12	3.10	9.26	(4.97)	(1.88)	(0.95)

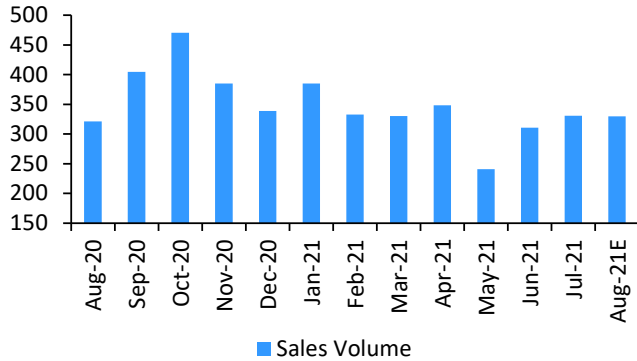
Source: DART, Company, Bloomberg

Exhibit 3: Ashok Leyland


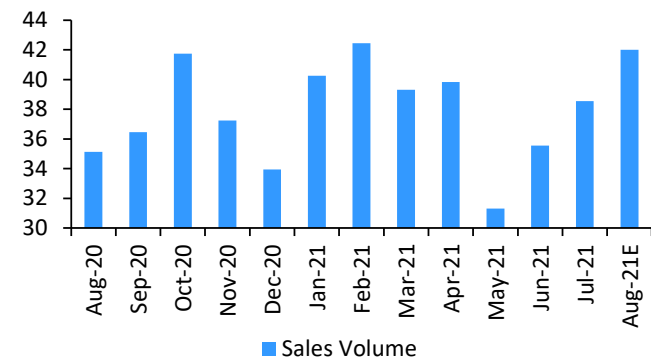
Source: Company, DART

Exhibit 4: Bajaj - Overall


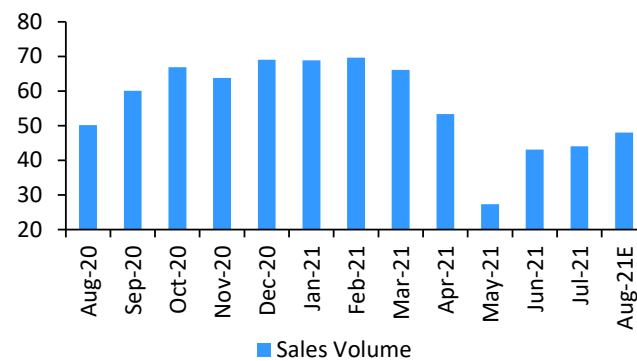
Source: Company, DART

Exhibit 5: Bajaj- Motorcycle


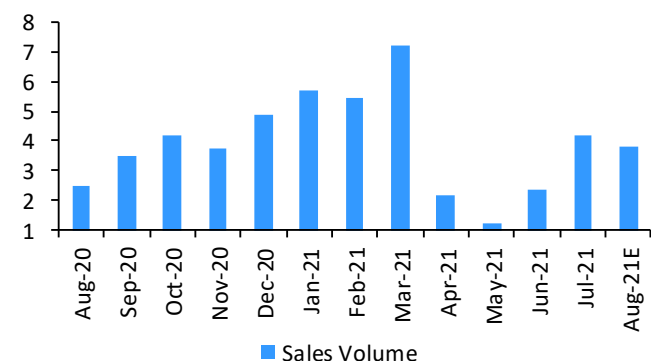
Source: Company, DART

Exhibit 6: Bajaj - CV


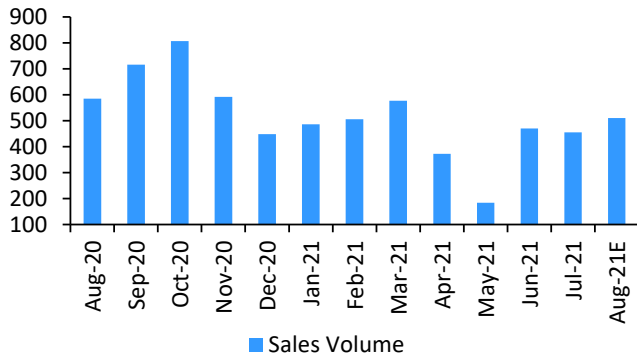
Source: Company, DART

Exhibit 7: Eicher – RE


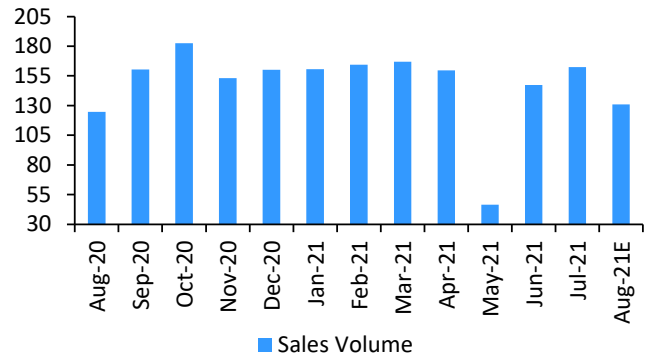
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Exhibit 8: Eicher – VECV


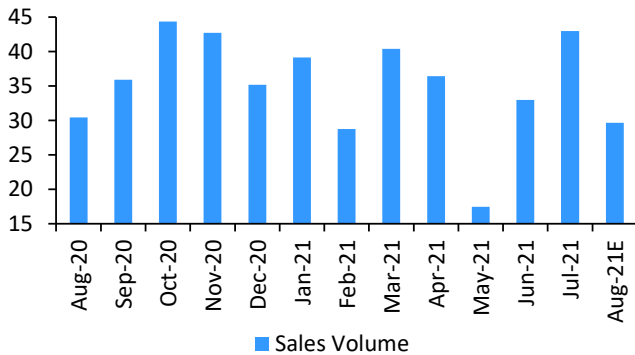
Source: Company, DART

Exhibit 9: Hero MotoCorp


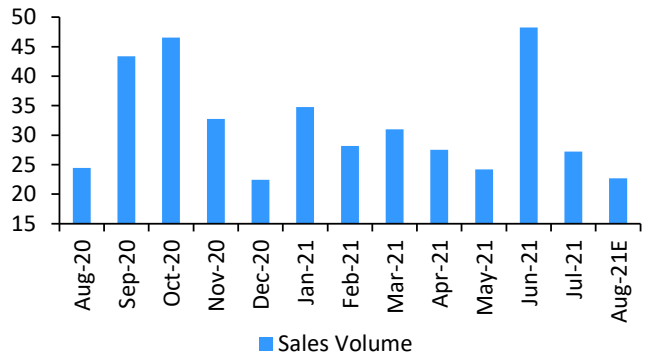
Source: Company, DART

Exhibit 10: Maruti Suzuki


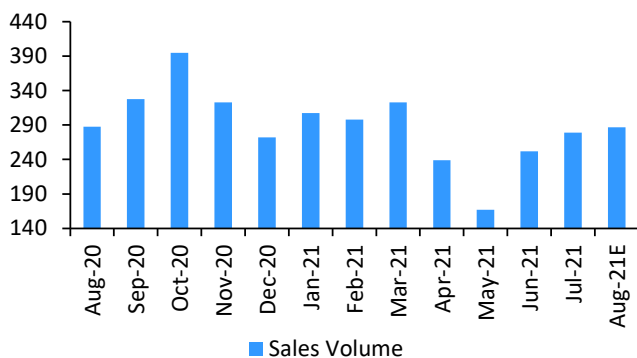
Source: Company, DART

Exhibit 11: M&M Auto


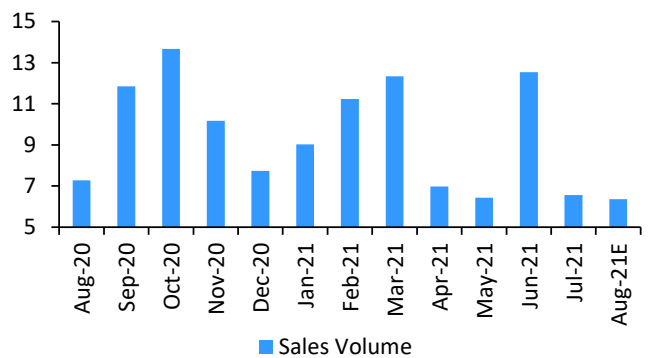
Source: Company, DART

Exhibit 12: M&M Tractors


Source: Company, DART

Exhibit 13: TVS Motors


Source: Company, DART

Exhibit 14: Escorts


Source: Company, DART

Valuation Matrix

	Mcap	CMP	TP	Upside	Rating	Adj EPS (Rs/sh)				P/E (X)				EV/EBITDA (X)				ROE (%)			
Auto OEMs	(Rs Bn)	(Rs)	(Rs)	(%)		FY20	FY21	FY22E	FY23E	FY20	FY21	FY22E	FY23E	FY20	FY21	FY22E	FY23E	FY20	FY21	FY22E	FY23E
Ashok Leyland	345	118	151	28	Accumulate	0.8	-1.1	1.6	5.3	144.1	NA	72.8	22.4	30.9	NA	23.7	12.5	3.1	-4.4	6.5	21.0
Bajaj Auto	1069	3,695	4,047	10	Reduce	176.2	157.0	182.7	216.6	21.0	23.5	20.2	17.1	17.6	17.3	14.9	12.2	24.5	20.2	23.7	28.1
Eicher Motors	702	2,573	2,571	0	Sell	66.9	49.3	76.5	102.8	38.4	52.2	33.7	25.0	28.5	34.3	23.0	17.4	19.3	12.6	17.3	20.6
Escorts	165	1,342	1,235	(8)	Reduce	53.6	86.5	83.1	83.4	25.0	15.5	16.2	16.1	23.9	13.5	14.6	13.7	15.2	19.7	14.4	12.6
Hero Motocorp	531	2,659	3,064	15	Accumulate	148.0	148.4	163.9	191.5	18.0	17.9	16.2	13.9	12.2	11.6	10.6	8.9	21.9	20.2	20.7	22.6
M&M	925	780	914	17	Buy	20.6	24.0	38.3	44.1	37.8	32.4	20.3	17.7	14.4	13.4	11.8	10.5	10.2	11.7	12.9	13.5
Maruti Suzuki	1999	6,619	7,970	20	Accumulate	187.1	140.0	249.1	298.1	35.4	47.3	26.6	22.2	22.5	29.3	15.9	12.7	11.9	8.5	13.9	15.1
SML ISUZU	8	564	449	-20	Sell	-14.5	-92.2	-31.9	22.4	NA	NA	NA	25.1	77.1	NA	64.7	10.4	-5.3	-41.7	-19.9	14.6
TVS Motor	243	511	659	29	Accumulate	13.1	12.9	21.2	26.6	38.9	39.7	24.1	19.2	19.3	17.2	12.3	10.1	17.9	15.7	22.3	23.8
Auto Ancillary																					
Amara Raja	115	671	866	29	Accumulate	38.7	37.9	42.3	48.1	17.3	17.7	15.8	13.9	11.2	10.9	9.4	8.3	18.9	16.4	16.4	16.9
Apollo Tyres	119	208	296	43	Buy	8.3	15.1	13.2	17.4	24.9	13.8	15.8	11.9	9.6	5.6	6.0	5.2	4.8	9.0	7.2	9.0
Asahi India	85	349	387	11	Accumulate	6.3	5.5	10.2	13.4	55.3	63.8	34.4	26.0	23.5	22.1	17.3	14.6	12.0	9.5	15.8	18.0
Balkrishna Ind	438	2,266	2,119	-6	Sell	48.9	59.8	69.9	83.7	46.3	37.9	32.4	27.1	35.6	24.9	22.1	18.4	19.5	20.9	20.9	21.7
Bharat Forge	339	728	915	26	Accumulate	9.2	3.9	19.9	27.3	79.1	188.5	36.6	26.7	36.6	47.1	22.0	17.1	8.0	3.4	15.9	18.9
CEAT	51	1,271	1,456	15	Accumulate	64.0	115.4	86.7	104.0	19.9	11.0	14.7	12.2	9.9	6.7	7.4	6.7	8.1	13.9	10.2	11.3
Exide Ind	134	158	224	42	Buy	9.7	9.0	9.7	11.3	16.2	17.6	16.3	14.0	9.7	8.5	7.6	6.1	8.4	7.6	7.4	7.8
Jamna Auto	35	88	105	19	Buy	1.2	1.8	3.3	4.8	73.2	48.1	26.5	18.4	32.0	26.4	17.0	11.8	9.3	13.3	21.5	26.6
JBM Auto	21	453	505	11	Buy	14.6	10.6	20.0	29.7	31.0	42.6	22.6	15.3	11.9	14.1	10.9	8.0	10.2	6.9	12.0	15.8
Lumax Auto	10	142	208	47	Buy	7.3	6.9	9.7	13.0	19.4	20.4	14.6	10.9	11.5	10.4	8.4	6.3	10.7	9.7	11.9	14.3
Lumax Ind	13	1,419	1,661	17	Accumulate	76.9	19.4	51.1	84.6	18.4	73.1	27.8	16.8	10.2	16.7	11.4	8.9	17.8	7.0	13.3	17.5
Minda Corp	27	120	152	27	Accumulate	6.0	3.9	4.3	7.6	19.9	30.4	27.8	15.7	11.2	12.6	12.5	8.2	13.9	8.2	8.2	12.7
RK Forging	30	928	960	3	Accumulate	2.9	8.8	42.7	60.1	314.8	NA	21.8	15.4	19.5	17.7	10.0	8.1	0.9	2.2	5.8	7.2
Sandhar tech	16	259	441	70	Accumulate	9.5	9.6	17.1	24.5	27.4	27.0	15.1	10.6	9.3	9.8	6.7	5.0	9.0	8.8	12.9	14.9
Sterling Tools	7	208	274	32	Buy	8.1	6.8	9.3	13.7	25.8	30.7	22.4	15.1	13.2	13.3	10.3	7.5	9.8	7.6	9.6	13.0
Subros	20	311	379	22	Accumulate	8.5	7.2	12.0	17.6	36.4	43.4	25.8	17.6	10.9	12.6	9.4	6.7	7.8	6.0	9.5	12.6
Suprajit Eng	45	325	377	16	Accumulate	9.4	10.2	12.9	15.8	34.6	31.8	25.2	20.6	21.6	19.7	16.1	13.6	16.1	15.5	17.4	19.4
Varrroc Eng.	45	296	357	21	Accumulate	0.0	-38.8	-2.2	18.7	NA	NA	-133.4	15.8	9.4	18.7	8.8	5.6	0.0	-21.0	-1.1	9.1
NRB Bearings	12	127	179	41	Buy	3.3	5.6	9.0	11.2	38.3	22.7	14.1	11.4	17.1	13.2	8.9	7.2	6.9	11.1	15.9	17.5
GNA Axles	15	684	721	5	Accumulate	24.6	32.9	43.9	48.1	27.9	20.8	15.6	14.2	12.9	11.3	8.3	7.3	12.4	14.6	16.9	16.0
Craftsman Auto	40	1,914	2,711	42	Buy	21.7	46.1	71.5	113.2	88.1	41.5	26.8	16.9	12.6	10.7	9.1	6.9	6.5	11.5	14.6	19.9

Source: DART, *target achieved

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

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Registered office: Unit no PO6-02A - PO6-02D, Tower A, WTC, Block 51, Zone-5, Road 5E, Gift City, Gandhinagar, Gujarat – 382355

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