

# Auto Sector

## Mixed Performance; Recovery from COVID 2.0 is Slower

### Key Findings:

- Recovery from second COVID wave seems to be slower-than-expected, while worsening monsoon situation has started impacting rural sales, which is visible in muted performance of rural vehicles like tractors and 2Ws in Aug'21.
- While PV segment witnessed subdued performance, 2W segment witnessed the worse performance; tractor volume witnessed sharp double-digit decline both on YoY and MoM basis; however, CV and 3W segments delivered healthy YoY growth albeit on lower base.
- Overall retail volume was lower than wholesale volume for 2Ws and tractors, due to COVID-led restrictions and heavy downpour in few rural markets; for PVs and CVs, retail volume was either in-line or better than wholesale volume.
- Though the industry players are confident of strong bounce-back in the upcoming festive season with reduced restrictions and higher vaccination coverage, we expect subdued festive sales this time.

### Key Highlights:

- Indian automobile companies reported a mixed sales performance both on YoY and MoM basis across different segments in Aug'21, due to weak demand and base effect. Whilst consumer sentiment witnessed improvement in Aug'21, it continues to remain lower than pre-COVID level. Retail sales volume was impacted to greater extent due to slower economic recovery, supply issue, adverse monsoon and price hike in few segments.
- Retail volume was lower than the wholesale volume in 2Ws and tractor segments, while it was better for PVs and CVs. Cumulative monsoon deficit to the tune of 10% on pan-India basis seems to have started impacting consumer sentiment in rural markets. PVs are in strong demand, but semiconductor supply constraint impacted production for all the PV players. However, CV and 3W segments witnessed healthy YoY growth due to low base. Surprisingly, the tractor segment underperformed with 17% MoM and 18% YoY decline.

### Our View

Though steady ease in lockdown/curbs and higher vaccination coverage are expected to support retail demand in the coming months, we expect the industry to record YoY decline over next 2 months. Recovery of rural economy is getting impacted due to uneven monsoon rainfall with high deficit in few large states and excess downpour in few other states. Whilst we believe increasing vaccination coverage and several government initiatives would support auto sales in 2HFY22E, we do not expect the quantum and pace of recovery to be as high and sharp in the upcoming festive season, as witnessed in the previous year. We expect only M&HCV segment to witness double-digit volume growth in FY22E.

**Nonetheless, long-term fundamentals continue to remain intact for automobile sector, in our view.**

- 2W:** BAL's sales grew by 5% YoY and 1% MoM to 3,73,270 units, while HMCL's sales fell by 22% YoY (flat on MoM basis) to 4,53,879 units. TVSL's sales grew by 1% YoY and 4% MoM to 2,90,694 units.
- PV & CV:** M&M's auto volume grew by 1% YoY (down 29% MoM) to 30,585 units, while MSIL's volume grew by 5% YoY (down 20% MoM) to 1,30,699 units. AL's volume grew by 48% YoY and 8% MoM to 9,360 units and TTMT reported sales of 57,995 units (up 59% YoY and up 7% MoM).
- Tractor:** M&M's tractor volume de-grew by 13% YoY (down 22% MoM) to 21,360 units and Escorts' sales volume de-grew by 22% YoY (down 13% MoM) to 5,693 units.

### Our Top Picks: Ashok Leyland, Bharat Forge and RK Forgings

#### Automobile Volume

Companies (Units)	Aug-21	Aug-20	YoY (%)	Jul-21	MoM (%)	YTD FY22	YTD FY21	YoY (%)
Bajaj Auto	3,73,270	3,56,199	4.8	3,69,116	1.1	17,48,400	10,55,134	65.7
Hero MotoCorp	4,53,879	5,84,456	(22.3)	4,54,398	(0.1)	19,32,784	16,62,233	16.3
TVS Motor	2,90,694	2,87,398	1.1	2,78,855	4.2	12,27,307	8,07,075	52.1
Maruti Suzuki	1,30,699	1,24,624	4.9	1,62,462	(19.6)	6,46,775	3,09,287	109
M&M Auto Volume	30,585	30,426	0.5	42,983	(28.8)	1,60,416	85,755	87.1
M&M Tractors	21,360	24,458	(12.7)	27,229	(21.6)	1,48,518	1,15,517	28.6
Tata Motors	57,995	36,505	58.9	54,119	7.2	2,26,898	89,194	154
Ashok Leyland	9,360	6,325	48.0	8,650	8.2	35,997	14,915	141
Eicher Motors (CV)	4,793	2,477	93.5	4,271	12.2	14,870	6,790	119
Escorts	5,693	7,268	(21.7)	6,564	(13.3)	38,192	30,740	24.2
<b>Domestic Volume of Following Companies</b>								
Hyundai	46,866	45,809	2.3	48,042	(2.4)	2,09,407	1,12,212	86.6
Toyota	12,772	5,555	130	13,105	(2.5)	45,006	16,448	174

Source: Company

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## Two-wheeler Segment

**Bajaj Auto:** Bajaj Auto (BJAUT.IN) sold 3,73,270 units in Aug'21 (up 5% YoY and up 1% MoM), led by subdued domestic sales and strong export volume. Its domestic sales de-grew by 7% YoY (up 3% MoM) to 1,72,595 units, as 2W sales de-grew by 11% YoY (up 1% MoM). However, domestic 3W sales grew by 91% YoY and 33% MoM. Its exports grew by 18% YoY (down 1% MoM) to 2,00,675 units with 2W exports growing by 26% YoY and 3W exports declining by 26% YoY, respectively. Higher exports can be attributed to strong demand in African markets, despite muted exports to few neighbouring countries due to lockdown and unavailability of containers. The company aims to maintain monthly export volume of ~200K over the next few months. It aims double-digit growth in exports volume in FY22E.

### Exhibit 1: Bajaj Auto

Segment (Units)	Aug-21	Aug-20	YoY (%)	Jul-21	MoM (%)	YTD FY22	YTD FY21	YoY (%)
<b>Motorcycles</b>	<b>3,38,310</b>	<b>3,21,058</b>	<b>5.4</b>	<b>3,30,569</b>	<b>2.3</b>	<b>15,68,184</b>	<b>9,59,543</b>	<b>63.4</b>
Domestic	1,57,971	1,78,220	(11.4)	1,56,232	1.1	6,56,755	5,16,675	27.1
Exports	1,80,339	1,42,838	26.3	1,74,337	3.4	9,11,429	4,42,868	106
<b>Three Wheelers</b>	<b>34,960</b>	<b>35,141</b>	<b>(0.5)</b>	<b>38,547</b>	<b>(9.3)</b>	<b>1,80,216</b>	<b>95,591</b>	<b>88.5</b>
Domestic	14,624	7,659	90.9	11,041	32.5	40,250	19,443	107
Exports	20,336	27,482	(26.0)	27,506	(26.1)	1,39,966	76,148	83.8
<b>Domestic Volume</b>	<b>1,72,595</b>	<b>1,85,879</b>	<b>(7.1)</b>	<b>1,67,273</b>	<b>3.2</b>	<b>6,97,005</b>	<b>5,36,118</b>	<b>30.0</b>
<b>Exports</b>	<b>2,00,675</b>	<b>1,70,320</b>	<b>17.8</b>	<b>2,01,843</b>	<b>(0.6)</b>	<b>10,51,395</b>	<b>5,19,016</b>	<b>103</b>
<b>Total Volume</b>	<b>3,73,270</b>	<b>3,56,199</b>	<b>4.8</b>	<b>3,69,116</b>	<b>1.1</b>	<b>17,48,400</b>	<b>10,55,134</b>	<b>65.7</b>

Source: Company

**Hero MotoCorp:** Hero MotoCorp (HMCL.IN) sold 4,53,879 units in Aug'21 (down 22% YoY and flat on MoM basis). Motorcycle volume declined by 23% YoY and 1% MoM, while scooter sales declined by 16% YoY (up 10% MoM). Slowdown in entry-level bike segment and shifting preference for higher-end bikes impacted the sales of its overall bike portfolio. The second COVID wave impacted the 2W demand in the rural markets, the impact was more pronounced for HMCL, as it is a key rural player. The management stated that most of the touch points are operational now and situation is expected to improve from the current level.

### Exhibit 2: Hero MotoCorp

Segment (Units)	Aug-21	Aug-20	YoY (%)	Jul-21	MoM (%)	YTD FY22	YTD FY21	YoY (%)
Motorcycles	4,20,609	5,44,658	(22.8)	4,24,126	(0.8)	18,04,324	15,46,107	16.7
Scooters	33,270	39,798	(16.4)	30,272	9.9	1,28,460	1,16,126	10.6
<b>Two Wheelers</b>	<b>4,53,879</b>	<b>5,84,456</b>	<b>(22.3)</b>	<b>4,54,398</b>	<b>(0.1)</b>	<b>19,32,784</b>	<b>16,62,233</b>	<b>16.3</b>

Source: Company

**TVS Motor:** TVS Motor (TVSL.IN) sold 2,90,694 units in Aug'21 (up 1% YoY and up 4% MoM). Its 3W sales increased by 61% YoY and 2% MoM to 16,381 units, while 2W sales de-grew by 1% YoY (up 4% MoM) to 2,74,313 units. Its motorcycle volume grew by 12% YoY (down 4% MoM) to 1,33,789 units, while moped sales declined by 24% YoY (up 8% MoM) to 53,465 units. Two-wheeler exports grew by 60% YoY and 8% MoM to 94,314 units, while the company's total exports volume grew by 61% YoY and 7% MoM to 1,09,927 units in Aug'21.

### Exhibit 3: TVS Motor

Segment (Units)	Aug-21	Aug-20	YoY (%)	Jul-21	MoM (%)	YTD FY22	YTD FY21	YoY (%)
Motorcycles	1,33,789	1,19,878	11.6	1,38,772	(3.6)	6,77,850	3,44,875	96.5
Scooters	87,059	87,044	0.0	74,351	17.1	3,00,845	2,47,673	21.5
Mopeds	53,465	70,304	(24.0)	49,605	7.8	1,77,047	1,83,894	(3.7)
Scooters/Mopeds	1,40,524	1,57,348	(10.7)	1,23,956	13.4	4,77,892	4,31,567	10.7
Three Wheelers	16,381	10,172	61.0	16,127	1.6	71,565	30,633	134
<b>Total Sales</b>	<b>2,90,694</b>	<b>2,87,398</b>	<b>1.1</b>	<b>2,78,855</b>	<b>4.2</b>	<b>12,27,307</b>	<b>8,07,075</b>	<b>52.1</b>

Source: Company

## Four-wheeler Segment

**Maruti Suzuki:** Maruti Suzuki's (MSIL.IN) volume increased by 5% YoY (down 20% MoM) to 1,30,699 units, lower-than-expected performance was on account of production constraints amid semiconductors supply issue, despite healthy order book to the tune of 200K units. In domestic PV segment, its sales decreased by 9% YoY and 23% MoM to 1,03,187 units. Its total exports grew by 160% YoY (down 3% MoM) to 20,619 units. While the UV volume grew by 16% YoY (down 25% MoM) to 24,337 units, van volume grew by 17% YoY and 6% MoM to 10,666 units. Mini segment (Alto and S-Presso) sales volume increased by 4% YoY and 4% MoM to 20,461 units. Its volume in compact segment (WagonR, Swift, Celerio, Ignis, Baleno, D'zire and Tour S) decreased by 26% YoY and 35% MoM to 45,577 units, as this segment needs relatively higher chips.

### Exhibit 4: Maruti Suzuki

Segment (Units)	Aug-21	Aug-20	YoY (%)	Jul-21	MoM (%)	YTD FY22	YTD FY21	YoY (%)
Mini (Alto & S-Presso)	20,461	19,709	3.8	19,685	3.9	87,386	49,420	76.8
Compact (WagonR, Swift, Celerio, Ignis, Baleno, Dzire & Tour S)	45,577	61,956	(26.4)	70,268	(35.1)	2,77,355	1,46,443	89.4
Mid-Size (Ciaz)	2,146	1,223	75.5	1,450	48.0	6,114	3,271	86.9
<b>Passenger Cars</b>	<b>68,184</b>	<b>82,888</b>	<b>(17.7)</b>	<b>91,403</b>	<b>(25.4)</b>	<b>3,70,855</b>	<b>1,99,134</b>	<b>86.2</b>
Utility Vehicles (Gypsy, Ertiga, S-Cross & Vitara Brezza)	24,337	21,030	15.7	32,272	(24.6)	1,16,620	53,607	118
Vans (Omni & Eco)	10,666	9,115	17.0	10,057	6.1	42,506	23,036	84.5
<b>Domestic Passenger Vehicles</b>	<b>1,03,187</b>	<b>1,13,033</b>	<b>(8.7)</b>	<b>1,33,732</b>	<b>(22.8)</b>	<b>5,29,981</b>	<b>2,75,777</b>	<b>92.2</b>
LCV (Super Carry)	2,588	2,292	12.9	2,768	(6.5)	9,412	5,713	64.7
<b>Total Domestic Sales</b>	<b>1,05,775</b>	<b>1,15,325</b>	<b>(8.3)</b>	<b>1,36,500</b>	<b>(22.5)</b>	<b>5,39,393</b>	<b>2,81,490</b>	<b>91.6</b>
<b>Exports</b>	<b>20,619</b>	<b>7,920</b>	<b>160</b>	<b>21,224</b>	<b>(2.9)</b>	<b>87,362</b>	<b>24,249</b>	<b>260</b>
Sales to other OEMs: Compact	4,305	1,379	212	4,738	(9.1)	20,020	3,548	464
<b>Total Sales</b>	<b>1,30,699</b>	<b>1,24,624</b>	<b>4.9</b>	<b>1,62,462</b>	<b>(19.6)</b>	<b>6,46,775</b>	<b>3,09,287</b>	<b>109</b>

Source: Company

**Mahindra & Mahindra (M&M):** M&M's (MM.IN) combined volume (Auto + Tractor) came in at 51,945 units (down 5% YoY and down 26% MoM). Its auto volume (domestic + exports) witnessed marginal YoY rise of 1% (down 29% MoM) to 30,585 units. It sold 27,405 units in domestic markets (down 6% YoY and down 33% MoM), while exports grew by 172% YoY and 50% MoM to 3,180 units. Its key volume contributor i.e. PV segment – comprising of UV, MPV and PCs – witnessed 17% YoY (down 24% MoM) growth due to low base. Its LCV sales de-grew by 45% YoY and 52% MoM to 8,329 units, while tractor sales de-grew by 13% YoY (down 22% MoM) to 21,360 units. Domestic tractor volume de-grew by 15% YoY (down 22% MoM) to 19,997 units, while export volume grew by 43% YoY (down 7% MoM) to 1,363 units.

### Exhibit 5: M&M Auto

Segment (Units)	Aug-21	Aug-20	YoY (%)	Jul-21	MoM (%)	YTD FY22	YTD FY21	YoY (%)
PCs	187	244	(23.4)	249	(24.9)	1,068	610	75.1
Passenger UVs	15,786	13,407	17.7	20,797	(24.1)	79,153	36,008	120
LCV < 2T - 3.5T	8,329	15,097	(44.8)	17,238	(51.7)	58,733	43,528	34.9
LCV > 3.5T + M&HCV	512	202	154	428	19.6	1,808	461	292
Three Wheelers	2,591	307	744	2,148	20.6	7,804	442	1,666
<b>Total Domestic Sales</b>	<b>27,405</b>	<b>29,257</b>	<b>(6.3)</b>	<b>40,860</b>	<b>(32.9)</b>	<b>1,48,566</b>	<b>81,049</b>	<b>83.3</b>
<b>Exports</b>	<b>3,180</b>	<b>1,169</b>	<b>172</b>	<b>2,123</b>	<b>49.8</b>	<b>11,850</b>	<b>4,706</b>	<b>152</b>
<b>Total Sales</b>	<b>30,585</b>	<b>30,426</b>	<b>0.5</b>	<b>42,983</b>	<b>(28.8)</b>	<b>1,60,416</b>	<b>85,755</b>	<b>87.1</b>

Source: Company

### Exhibit 6: M&M Tractors

Segment (Units)	Aug-21	Aug-20	YoY (%)	Jul-21	MoM (%)	YTD FY22	YTD FY21	YoY (%)
Domestic	19,997	23,503	(14.9)	25,769	(22.4)	1,41,614	1,12,543	25.8
Exports	1,363	955	42.7	1,460	(6.6)	6,904	2,974	132
<b>Total</b>	<b>21,360</b>	<b>24,458</b>	<b>(12.7)</b>	<b>27,229</b>	<b>(21.6)</b>	<b>1,48,518</b>	<b>1,15,517</b>	<b>28.6</b>

Source: Company

**Tata Motors:** Tata Motors (TTMT.IN) sold total 57,995 units (up 59% YoY and up 7% MoM) in Aug'21. Its domestic CV volume stood at 26,172 units (up 55% YoY and up 20% MoM). Its domestic PV volume stood at 28,018 units (up 51% YoY and down 7% MoM), on the back of success of new launches and improved brand equity. Its total domestic volume grew by 53% YoY and 4% MoM to 54,190 units in Aug'21.

#### Exhibit 7: Tata Motors

Segment (Units)	Aug-21	Aug-20	YoY (%)	Jul-21	MoM (%)	YTD FY22	YTD FY21	YoY (%)
PVs	28,018	18,583	50.8	30,185	(7.2)	1,22,589	48,166	155
CVs	26,172	16,837	55.4	21,796	20.1	91,368	38,051	140
<b>Domestic Sales</b>	<b>54,190</b>	<b>35,420</b>	<b>53.0</b>	<b>51,981</b>	<b>4.2</b>	<b>2,13,957</b>	<b>86,217</b>	<b>148</b>
Export Sales	3,805	1,085	251	2,138	78.0	12,941	2,977	335
<b>Total</b>	<b>57,995</b>	<b>36,505</b>	<b>58.9</b>	<b>54,119</b>	<b>7.2</b>	<b>2,26,898</b>	<b>89,194</b>	<b>154</b>

Source: Company

**Ashok Leyland:** Ashok Leyland (AL.IN) sold 9,360 units in Aug'21 (up 48% YoY and up 8% MoM). Its LCV sales stood at 4,414 (up 23% YoY and down 5% MoM), while M&HCV volume grew by 79% YoY and 15% MoM to 3,986 units, mainly due to 80% YoY (up 15% MoM) and 57% YoY (up 12% MoM) growth in Truck and Bus volume, respectively. We believe that retail sales in CV segment would have been lower than the wholesale volume. Barring near-term hiccups, we believe the CV industry is heading towards the next up-cycle. Pick-up in construction activities and infra projects have started helping the CV segment gradually. We expect the M&HCV industry to witness remarkable improvement in FY22E.

#### Exhibit 8: Ashok Leyland

Segment (Units)	Aug-21	Aug-20	YoY (%)	Jul-21	MoM (%)	YTD FY22	YTD FY21	YoY (%)
M&HCV Trucks	3,845	2,132	80.3	3,347	14.9	14,712	4,227	248
M&HCV Buses	141	90	56.7	126	11.9	607	218	178
<b>Total M&amp;HCV</b>	<b>3,986</b>	<b>2,222</b>	<b>79.4</b>	<b>3,473</b>	<b>14.8</b>	<b>15,319</b>	<b>4,445</b>	<b>245</b>
LCV	4,414	3,602	22.5	4,656	(5.2)	17,760	9,071	95.8
<b>Total Domestic CV</b>	<b>8,400</b>	<b>5,824</b>	<b>44.2</b>	<b>8,129</b>	<b>3.3</b>	<b>33,079</b>	<b>13,516</b>	<b>145</b>
<b>Total Exports</b>	<b>960</b>	<b>501</b>	<b>91.6</b>	<b>521</b>	<b>84.3</b>	<b>2,918</b>	<b>1,399</b>	<b>109</b>
<b>Total Sales</b>	<b>9,360</b>	<b>6,325</b>	<b>48.0</b>	<b>8,650</b>	<b>8.2</b>	<b>35,997</b>	<b>14,915</b>	<b>141</b>

Source: Company

**Eicher Motor:** Eicher (EIM.IN) sold 4,793 units in Aug'21 (up 94% YoY and up 12% MoM). While the company sold 3,864 trucks and buses (up 76% YoY and up 9% MoM) in the domestic markets, it exported 803 vehicles (up 221% YoY and up 26% MoM) during the month. Volvo truck volume grew by 241% YoY and 62% MoM to 126 units.

#### Exhibit 9: Eicher Motors

Segment (Units)	Aug-21	Aug-20	YoY (%)	Jul-21	MoM (%)	YTD FY22	YTD FY21	YoY (%)
Domestic Sales	3,864	2,190	76.4	3,553	8.8	11,388	5,408	111
Exports	803	250	221	640	25.5	3,113	1,228	154
<b>Total of Truck &amp; Buses</b>	<b>4,667</b>	<b>2,440</b>	<b>91.3</b>	<b>4,193</b>	<b>11.3</b>	<b>14,501</b>	<b>6,636</b>	<b>119</b>
Volvo Trucks	126	37	241	78	61.5	369	154	140
<b>Total Volume</b>	<b>4,793</b>	<b>2,477</b>	<b>93.5</b>	<b>4,271</b>	<b>12.2</b>	<b>14,870</b>	<b>6,790</b>	<b>119</b>

Source: Company

**Royal Enfield (RE):** RE sold 45,860 units in Aug'21 (down 9% YoY and up 4% MoM). While it sold 39,070 units (down 18% YoY and down 1% MoM) in the domestic markets, it exported 6,790 units (up 164% YoY and up 43% MoM) in Aug'21.

#### Exhibit 10: Royal Enfield

Segment (Units)	Aug-21	Aug-20	YoY (%)	Jul-21	MoM (%)	YTD FY22	YTD FY21	YoY (%)
Up to 350CC	38,572	46,357	(16.8)	37,556	2.7	1,82,681	1,35,174	35.1
> 350 CC	7,288	3,787	92.4	6,482	12.4	30,857	12,573	145
<b>Domestic</b>	<b>39,070</b>	<b>47,571</b>	<b>(17.9)</b>	<b>39,290</b>	<b>(0.6)</b>	<b>1,83,037</b>	<b>1,40,435</b>	<b>30.3</b>
<b>Exports</b>	<b>6,790</b>	<b>2,573</b>	<b>164</b>	<b>4,748</b>	<b>43.0</b>	<b>30,501</b>	<b>7,312</b>	<b>317</b>
<b>Total Volume</b>	<b>45,860</b>	<b>50,144</b>	<b>(8.5)</b>	<b>44,038</b>	<b>4.1</b>	<b>2,13,538</b>	<b>1,47,747</b>	<b>44.5</b>

Source: Company

## Tractor Segment

**Escorts:** Escorts (ESC.IN) sold 5,693 units (down 22% YoY and down 13% MoM). Its domestic volume grew by 27% YoY (down 19% MoM) to 4,920 units, while exports increased by 49% YoY (up 52% MoM) to 773 units.

### Exhibit 11: Escorts

Segment (Units)	Aug-21	Aug-20	YoY (%)	Jul-21	MoM (%)	YTD FY22	YTD FY21	YoY (%)
Domestic	4,920	6,750	(27.1)	6,055	(18.7)	35,475	29,393	20.7
Exports	773	518	49.2	509	51.9	2,717	1,347	102
<b>Total Tractors</b>	<b>5,693</b>	<b>7,268</b>	<b>(21.7)</b>	<b>6,564</b>	<b>(13.3)</b>	<b>38,192</b>	<b>30,740</b>	<b>24.2</b>

Source: Company

## Other Auto Companies

### Exhibit 12: Other Auto Companies

Segment (Units)	Aug-21	Aug-20	YoY (%)	Jul-21	MoM (%)	YTD FY22	YTD FY21	YoY (%)
Hyundai	46,866	45,809	2.3	48,042	(2.4)	2,09,407	1,12,212	86.6
Toyota	12,772	5,555	130	13,105	(2.5)	45,006	16,448	174

Source: Company

## Change in Ratings

We have now only **BUY** and **SELL** Recommendation and have discontinued  **HOLD** Recommendation.

We now have **2-Year Target Price** and have discontinued 1-Year Target Price.

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