

06 September 2021

Auto Sector

Semiconductor shortage to disrupt 3Q production as well

CHANNEL CHECK

Industry Automobile

Auto sector v/s Sensex



Source: Company

The global automotive industry has been struggling with the shortage of semiconductors for the last 15 months, driven initially by a sharp recovery in demand for consumer electronics and automobiles after lockdown 1.0. The imbalance got accentuated by drought in Taiwan, fire at Renesas unit in Japan and storm in Texas, USA (key supplier locations). The most recent impact on passenger vehicle (PV) production was due to COVID-led lockdowns in Malaysia. As per our interaction with various manufacturers, most Indian OEMs source their supplies from [STMicroelectronics's](#) (ST) Malaysia units. ST plans to ramp up supplies to 50% by mid-Sep and to 80% by the end of the month as economic activities are resuming in Malaysia. It has a huge order backlog and will decide on supply prioritisation in the near term (autos contribute to a smaller part of ST's supplies).

The auto industry typically works with a one-month semiconductors inventory; this has changed to just-in-time supplies lately. Anti-lock braking (ABS) & Electronic Stability Control (ESC) systems are the most impacted components. While the hardware is interchangeable between models, the software is model-specific. According to various vendors, the situation remains dynamic and visibility remains low. The production constraints will continue in Oct-Nov' 21 and completely normalise only in 2HCY22. Most OEMs have indicated a production cut in Sep'21 as below:

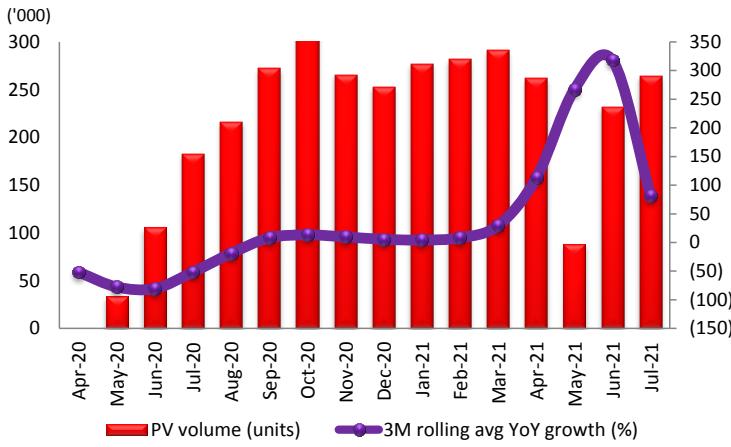
- [Maruti](#) expects a 60% production cut.
- Hyundai and Kia will see a 20% production cut.
- [M&M](#) expects a 25% production cut.
- Two-wheelers (2W) above 150cc and E-2W players are also impacted (including Ola Electric). Ola has trimmed Oct'21 schedules to sub-4,000 units.

The production constraints have surfaced at the worst time for PVs as demand was robust ahead of the festive season. Most best-selling models now have a waiting period of 4-8 weeks. **Within our coverage universe, we see a 10-15% cut in FY22E earnings for Maruti, M&M and Eicher Motors and a second-order impact on Minda Ind and Varroc Engineering.**

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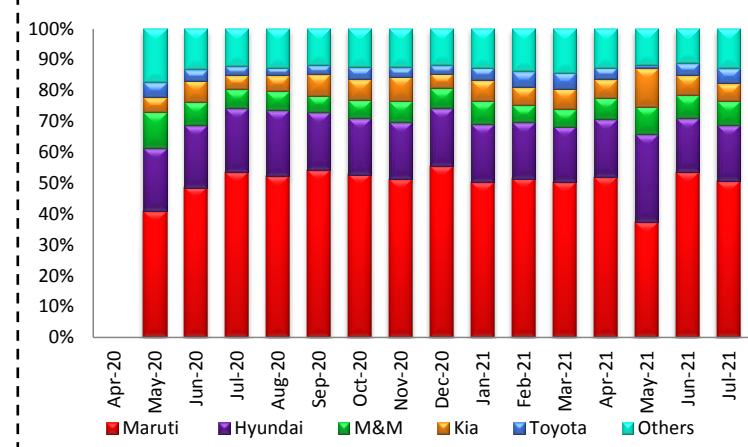
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Exhibit 1: Domestic PV volumes & 3M rolling avg growth (RHS)



Source: SIAM, Systematix Institutional Research

Exhibit 2: Domestic PVs market share trend



Source: SIAM, Systematix Institutional Research

Investors are advised to refer disclosures made at the end of the research report.

Exhibit 3: Valuation summary for coverage universe

Companies	CMP	Reco	FDEPS (Rs)		PE (x)		EV/ E (x)		RoCE (%)	
	(Rs)		FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Ashok Leyland	121	HOLD	1	5	141	20	33	12	5	21
Bajaj Auto	3,752	HOLD	166	193	23	19	17	14	25	29
Balkrishna	2,410	SELL	70	71	34	34	22	20	24	22
Bharat Forge	792	BUY	24	33	33	24	19	14	14	18
Eicher Motors	2,801	BUY	67	101	42	28	34	24	19	26
Endurance	1,612	BUY	56	69	29	23	15	12	24	25
Hero MotoCorp	2,801	BUY	159	191	18	15	11	9	26	28
Mah & Mah	750	SELL	33	35	14	14	13	12	12	12
Maruti Suzuki	6,863	HOLD	151	242	45	28	26	16	11	16
Minda Corp	130	BUY	7	11	18	12	9	7	15	19
Minda Ind	685	BUY	19	24	37	28	17	14	25	26
TVS Motor	540	HOLD	21	25	26	21	14	12	23	24
Varroc	281	BUY	-7	21	-38	13	8	4	-0	9

Source: Company, Systematix Institutional Research

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