

Sector Presentation

Auto & Auto Ancillaries

Q4FY23 Auto OEM Review – Robust Show On Improved Realizations & Stable Costs

Financial Performance

- The companies under our coverage reported Revenue/EBITDA/PAT growth of +20%/+33%/+33% YoY against expectation of +19%/+29%/+29%. Revenue/EBITDA/PAT growth of +8%/+15%/+14% QoQ, against expectation of +8%/+11%/+11% was driven by higher ASPs, sales volumes, and operating leverage.
- EBITDA margins expanded by 130bps YoY and 80bps QoQ on account of higher ASP's (led by product premiumisation) and higher operating leverage, led by higher sales volumes.
- Most companies under our coverage outperformed on Revenue/EBITDA/PAT front (except Ashok Leyland and Maruti Suzuki on our higher expectations) led by higher ASPs on better price absorption and stable RM costs.

Q4FY23 Auto Ancillaries Review – Decent show, Growth drivers intact

Financial Performance

- The companies under our coverage reported Revenue/EBITDA/PAT growth of +12%/+12%/+18% YoY against expectation of +17%/+22%/+11%. Revenue/EBITDA/PAT growth of +3%/+3%/+29% QoQ, against expectation of +7%/+13%/+21%, driven by higher ASPs, sales volumes, and operating leverage.
- Most companies under our coverage missed our estimates except for Endurance Technologies.

Encouraging Demand Scenario: In FY23, PV/2W/CV segments grew by 27%/17%/34% YoY led by healthy demand and the low base of the previous year. Demand momentum is expected to continue but at a slower growth rate in FY24 due to higher base of FY23.

- PV: For FY24, SIAM estimates the PV industry to grow between 5-7% (post the robust 27% YoY growth in FY23). ICRA expects 6-9% growth in FY24.
- 2W: In FY23, 2W domestic sales grew by 17% YoY to 15.9 Mn units (still much below the peak of 21.2 Mn units in FY19). A low base is expected to aid a modest growth of 6-9% YoY in FY24 for the domestic volumes for the 2W industry.
- CV: Ashok Leyland expects the industry to grow between high single-digit to low teens in MHCV and mid single-digit growth in the LCV segment on a YoY basis in FY24. Passenger MHCV (buses) demand is expected to grow by ~30% YoY in FY24, led by replacement demand from educational institutions. The management expects similar growth momentum in FY25, thereby indicating the CV up cycle to remain longish. In FY23, MHCVs grew by 49% YoY and LCVs by 27% YoY.
- Tractors: Domestic tractor industry growth is expected to moderate in FY24 (0-2% YoY growth on a high base). Industry volumes represented a 12% YoY growth in FY23, touching an all-time high of 9.45 Lc units. Key risk to our FY24 growth estimates is crop damage in case of unseasonal rainfall or deficient monsoon precipitation.

Margin Outlook is stable

- We expected EBITDA Margins to remain stable or even improve going forward. This will be led by a richer product mix, higher realization, and positive operating leverage.
- RM input costs have remained largely benign over the last few months. Spot Steel HRC prices over the last three months are down 5% and 17% in India and China. Spot LME Zn, Cu, and Al are down by 22%, 5% and 6% respectively while Platinum and Palladium are up by 12% and 2% over the same period.

We remain positive as demand drivers are intact

- We expect 2W sales volumes to sustain in FY24, led by new vehicle launches, especially in the premium category, an elongated replacement demand buoyed by the Indian growth story and an expected revival in exports in H2FY24.
- PV sales will be led by the strong UV order book. However, we expect growth rate to moderate in FY24 after a strong growth of 27% YoY in FY23.
- For CVs, a longish CV cycle is expected by various OEMs based on increased spending on infrastructure by the government.
- Tractor volumes may see marginal growth on account of the high base of FY23. We remain selective and for OEMs under our coverage, our top picks are TVS motors in the 2W segment, Maruti in the PV segment, and Ashok Leyland in the CV space.

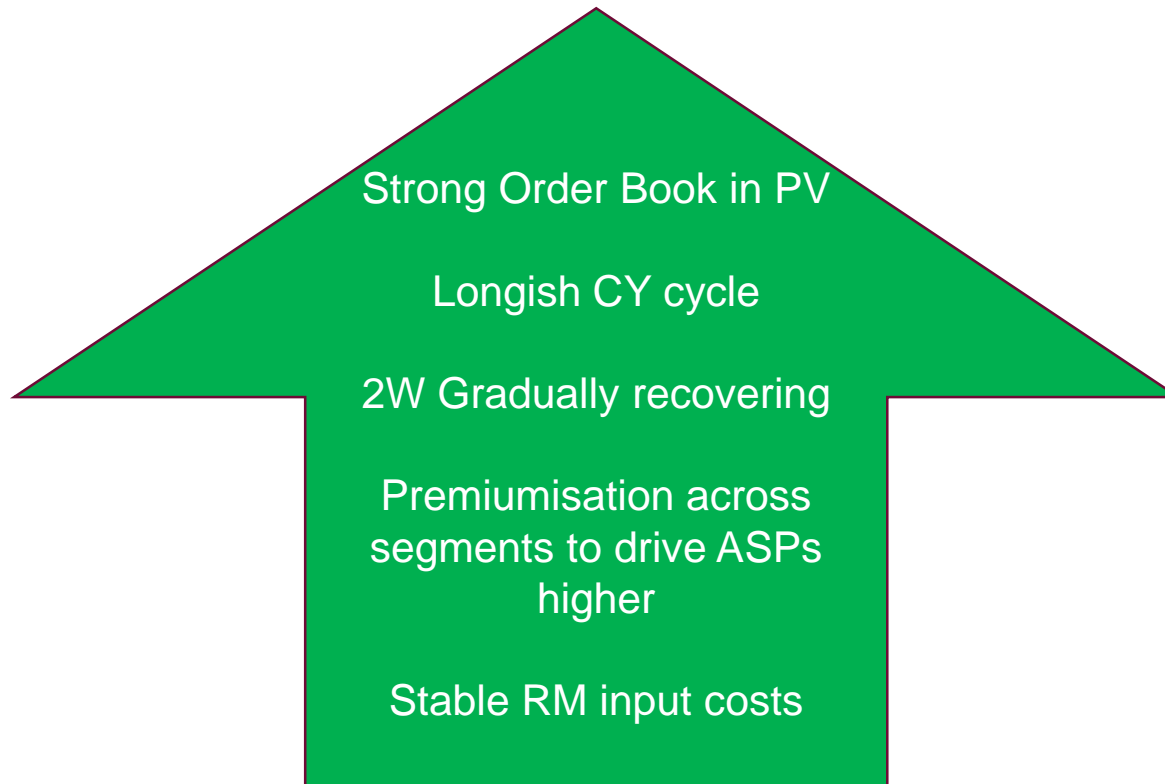
Chip supply issues are normalising.

Auto Ancillaries

- Premiumisation and EV focus will drive higher content per vehicle which will drive profitability. Mahindra CIE Automotive Ltd is our top pick in the Ancillary space.

Short and Medium-term outlook

Short to Medium term



Selective approach in the Long Term.

EV/ alternative fuel leaders to be rewarded.

Slashing of FAME subsidy likely to consolidate the 2W EV market.

Demand momentum to moderate on higher base

Long Term

Key monitorables – Rural Recovery, Pick up in Exports, and Price Realizations

Top Picks Ideas from the Sector

Stock	Reco.	Target Price*	Recommendation Rationale
Maruti Suzuki	BUY	Rs 10,500	<ul style="list-style-type: none">• Prevailing demand scenario healthy: At the end of Q4FY23, customer orders stood at ~4.12 Lc (~3.63Lc in Q3FY23) vehicles out of which ~1/3rd are CNG models, also the recently launched SUV's constitute good share of the order book. For FY24, SIAM estimates the PV industry to grow between 5-7% (post the robust 26% YoY growth in FY23). Management said the company's volumes will grow better than these industry growth estimates.• ASPs to remain higher: Higher share of SUVs in the sales mix with demand for the newer models and the bigger car sales could keep the ASPs strong.• Capacity expansion: To meet the market demand, the board has, in principle, approved 1mn units capacity in addition to the existing capacity. Company has earmarked a capex of Rs 8,000 Cr for FY24, majority of which will be spent towards the capacity expansion at Kharkhoda plant (250k units), new models and projects and annual maintenance. The company is also looking to add 1Lc units capacity at Manesar by FY25.• Regulations: On a regulatory front the company is well placed. BS6 phase-II transition for gasoline engines doesn't cost much. (Diesel models will witness significant cost jump, however, Maruti has already exited from the Diesel portfolio). Additional requirements such as, ESC – Electronic stability control, seat belt reminders will have a minor cost impact. On the CAFÉ norms, the company has least CO2 value as compared to peers.

*Note: Target Price is based on our Top Picks report – Jun'23

Top Picks Ideas from the Sector

Stock	Reco.	Target Price*	Recommendation Rationale
Ashok Leyland	BUY	Rs 175	<ul style="list-style-type: none">• Longish CV cycle: Ashok Leyland (AL) expects the industry to grow between high single-digit to low teens in MHCV and mid single-digit growth in the LCV segment on a YoY basis in FY24. Also, passenger MHCV (buses) demand is expected to grow by ~30% YoY in FY24 led by replacement demand from institutions. The management expects similar growth momentum in FY25, thereby indicating CV upcycle to remain longish.• Strong EBITDA Margins: AL reported 11% EBITDA margins in Q4FY23. We expect EBITDA margins to sustain going ahead on account of (1) Higher ASP and lower discounts leading to higher net realizations; (2) Higher GMs on softening commodity costs (3) Richer product mix skewed towards higher tonnage vehicles; (4) Operating leverage driven by absolute volume growth; (5) Growth in International business, Defence, Power Solutions, and Aftermarket which are higher margin contributing businesses.• EV Business to Accelerate: The management has informed that Switch Mobility (EV subsidiary arm) currently has a confirmed order book of 2,500 EVs across multiple geographies like India, the UK, and Europe. AL plans to invest Rs 1,200 Cr over the next 12 months in SWITCH. The investment is predominantly towards meeting Capex requirements in developing new products – two new LCVs: Electric Dost and Bada Dost; low floor 12/9 meter buses for the EU/Indian market respectively.

*Note: Target Price is based on our Q4FY23 Result Update Report

Top Picks Ideas from the Sector

Stock		Reco.	Target Price*	Recommendation Rationale
TVS Company	Motor	BUY	Rs 1,450	<ul style="list-style-type: none">• Promising Future EV plans: In FY23, the EV industry grew by 3.1x YoY, and TVS's FY23 volumes improved to 97k units vs. 10k units in FY22. The current order book of iQube is at 30K units. The iQube is now present in 235 touch points across 135 cities. The company will be launching EVs in different customer segments with a complete portfolio, in the range of 5-25KW in the next 9-1 months. E-3Ws, both passenger and cargo, will be launched in the upcoming quarter.• Gradual recovery in exports is expected MoM: The company is keeping the right stock for both the domestic and exports market (inventory for 25-30 days). In FY23, most of the market except the ASEAN market was facing challenges and the company reduced dispatch to match retail. Dispatches will improve MoM going forward. Gradual recovery in exports is expected MoM going forward as the company has reduced dispatches to match the retail sales.• Competitive position in the growing 125cc segment: TVS's 125cc segment is continuing to show good traction with robust demand. Raider, Ntorq and Jupiter in the 125cc segment are growing ahead of the industry. Raider has crossed the 30K per month run rate. In the premium segment, Apache is doing well, while Ronin is a special category segment where on average the company is producing ~2,000-2,500 units every month and it will go up in the coming months.

*Note: Target Price is based on our Pick of the Week published on 3rd Jun'23

Top Picks Ideas from the Sector

Stock	Reco.	Target Price*	Recommendation Rationale
Mahindra CIE Automotive Ltd	BUY	Rs 535	<ul style="list-style-type: none">• Sales and Margin Recovery in Europe: Post the hive-off of the German trucking business, the EBITDA margins have been positively impacted, led by lower energy prices, input cost pass-through, internal efficiencies and higher volumes. The company is confident to maintain current EBITDA margins (16.4% in Q1CY23 vs. 11% in Q4CY22) on the back of lower energy prices, internal efficiencies, and higher volumes.• Continued Growth and Profitability in India: The Indian arm contributed 59% of Q1CY23 revenue from continued operations. The demand remained strong, particularly from PV (M&M, TTML) and the Tractor segment (John Deere). New order wins from 2W/3W EV and ICE products to aid future revenue growth. The management informed active EV orders received from TTML and M&M in the PV segment and from multiple OEMs in the 2W/3W segment. It has set a target to achieve 25% of total sales from new businesses annually.• Healthy Balance Sheet: The ability to generate strong FCF and negligible debt on the balance sheet gives inorganic growth opportunities to the company in future. We expect the company's ROIC to improve from 15.5% to 21.7% on the back of 22% CAGR in EBITDA Margins over CY22-25E.

*Note: Target Price is based on our Top Picks report – Jun'23

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