INSTITUTIONAL RESEARCH

Autos

Q4 preview: Premiumisation is the way to go

Premium 2Ws and UVs shine, CVs/tractor demand tapers

The premiumisation trend continues to remain in focus with UVs and premium 2Ws driving the growth.

The entry-level 2W demand, which picked up in the festive season, has failed to sustain in Q4. It is pertinent to highlight, however, that demand for 125cc and above continued to be strong. Hence, we remain circumspect of a sustainable demand recovery for the entry-level two-wheeler segment.

In PVs, UVs continued to outpace cars. Further, on expected lines, CV growth is tapering off over a high base with the top 3 players reporting a volume decline of 5% YoY. The tractor segment has witnessed an estimated 3% YoY decline in volumes in Q4 due to sub-par monsoon and a high base.

YoY growth in earnings likely to continue for two-wheeler OEMs in Q4

We expect the listed 2W OEMs to post a strong 15% earnings growth (12% down QoQ), led by strong volume growth. While YoY growth is expected to remain strong for all four players, higher ad spending due to intense competition is expected to drag profitability sequentially. For Hero MotoCorp, we expect margins to decline by 100bps QoQ due to higher promotional spending in Q4. We also expect margins for BAL and Eicher to correct a bit over a high base of Q3, largely due to an adverse mix. We expect TVS margins to remain stable QoQ.

Four-wheeler OEMs earnings to decline on QoQ basis

As highlighted above, CV growth rates have tapered off on expected lines over a high base and are expected to remain weak in 1HFY25. Overall, we expect domestic CV peers to post some decline in margins QoQ due to lower volumes. For Tata Motors, we expect JLR to see a 186bps margin decline QoQ due to adverse mix and continued rise in marketing spending. In PVs, we expect MSIL to post around 25bps margin decline QoQ due to an adverse mix. M&M is expected to post a 50bps QoQ decline in margins due to a lower share of tractors in the mix.

Auto ancillary companies to post single-digit revenue growth QoQ

The demand from PVs and 2Ws had been favourable for auto ancillaries on a YoY basis. The growth from PVs is likely to taper off from 1QFY25 due to a high base in FY24. The demand for CVs is likely to remain muted as well.

With significant exposure to Europe, higher input and freight costs are likely to keep margins under pressure for most auto ancillaries.

Overall, auto ancillaries within our coverage universe are expected to post 11% QoQ earnings growth.

Valuation and view

The auto sector has outperformed the Nifty Index in Q4, led largely by a sharp rally in some 2W and PV stocks. We continue to maintain our BUY rating on both M&M and Maruti Suzuki as we expect both of them to continue to outperform the UV segment, which would in turn help improve their performance.

Companies	Reco	Price Target
Apollo Tyres	REDUCE	520
Ashok Leyland	SELL	151
Bajaj Auto	SELL	5,606
Balkrishna Industries	REDUCE	2,228
Bharat Forge	BUY	1,286
Eicher Motors	REDUCE	3,597
Endurance Technologies	SELL	1,599
Hero MotoCorp	REDUCE	3,535
Mahindra & Mahindra	BUY	1,862
Maruti Suzuki India	BUY	12,887
Motherson Sumi Wiring India	ADD	67
Samvardhana Motherson International	BUY	129
Sansera Engineering	BUY	1,190
Suprajit Engineering	BUY	463
Tata Motors	SELL	596
TVS Motors	BUY	2,211

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Two-wheeler OEMs

- Two-wheeler OEMs within our coverage universe are expected to post 15% YoY growth in revenues, which is being driven by 17% YoY growth in volumes, over a relatively low base of last year. The growth witnessed in the entry segment due to the festive season in the previous quarter has tapered off. Volume growth has largely been driven by continued momentum in the 125cc+ motorcycle segment. The expectation of a good monsoon and marriage season is likely to drive growth in the entry-level 2W segment post-2HFY25.
- On the back of strong volume growth and margin improvement, we expect the 2W industry to post 16% YoY growth in earnings. While earnings growth is strong on a YoY basis, it is important to highlight the 12% sequential decline due to the continued weakness in entry-level 2W demand.

Fig1: Q4FY24 Two-Wheeler Estimates

Company	Revenue			EBITDA Margin (%)			PAT			Comment
	Q4 FY24E	YoY (%)	QoQ (%)	Q4 FY24E	YoY (bps)	QoQ (bps)	Q4 FY24E	YoY (%)	QoQ (%)	
Bajaj Auto	108,082	21.4	-10.8	19.4	14	-64	17,698	23.5	-3.6	Expect some margin impact on QoQ basis due to weaker product mix
Eicher Motors	38,153	0.3	-8.7	24.6	2	-153	8,066	-10.9	-19.0	Benefit of higher exports likely to be offset by higher ad spends due to the launch of Shotgun 650
Hero MotoCorp	91,919	10.7	-5.5	13.0	-4	-101	8,778	23.4	-18.2	Higher promotional spends due to launch of Mavrick 440 and Xtreme 125R are likely to hurt margins on QoQ basis
TVS Motor	79,580	20.5	-3.5	11.0	90	0	5,504	56.0	2.6	Margins are likely to remain stable QoQ
Total	**3,17,735**	**15.0**	**-7.3**	**16.1**	**11**	**-86**	**39,435**	**15.5**	**-12.3**	

Source: HSIE Research

Fig2: Bajaj Auto Q4FY24 Volumes

(Units)	Q4FY24	YoY (%)	QoQ (%)
Two wheeler sales	**916,817**	**26.7**	**-11.9**
Domestic	546,881	32.4	-16.6
Exports	369,936	19.2	-3.8
Three wheeler sales	**151,759**	**13.0**	**-5.6**
Domestic	110,449	10.4	-10.1
Exports	41,310	20.5	8.8
Total Domestic	657,330	28.1	-15.5
Total Exports	411,246	19.3	-2.7
Total Vehicles	**1,068,576**	**24.6**	**-11.0**

Source: Company, HSIE Research

Fig3: Royal Enfield Q4FY24 Volumes

(Units)	Q4FY24	YoY (%)	QoQ (%)
Total Sales	**227,673**	**4.2**	**-0.2**
of which exports	23,151	-12.6	57.6

Source: Company, HSIE Research

Fig4: Hero MotoCorp Q4FY24 Volumes

(Units)	Q4FY24	YoY (%)	QoQ (%)
Motorcycles	1,295,709	8.8	-2.2
Scooters	96,714	22.3	-28.2
Two wheelers	**1,392,423**	**9.6**	**-4.6**
Export Sales	66,975	86.0	45.5
Domestic Sales	**1,325,448**	**7.4**	**-6.3**

Source: Company, HSIE Research

Fig5: TVS Motor Q4FY24 Volumes

(Units)	Q4FY24	YoY (%)	QoQ (%)
Motorcycles	511,245	31.6	-2.2
Scooters	395,914	16.4	-2.0
Mopeds	125,034	13.1	-8.0
Two wheelers	**1,032,193**	**23.0**	**-2.9**
Three Wheelers	30,336	4.2	-20.3
Total Sales	**1,062,529**	**22.4**	**-3.5**
Export Sales	260,171	40.3	4.7
Domestic Sales	802,358	17.5	-5.9

Source: Company, HSIE Research

Passenger vehicle OEMs

- Within PVs, UVs continued to outperform the PV segment even in Q4. Both MSIL and M&M have outperformed in UVs for the fourth consecutive quarter. While MSIL led the growth in UVs at 72% YoY, both M&M and Tata Motors have posted 28% YoY growth.
- The expectation of an above-average monsoon is likely to drive tractor demand post-election in FY25.
- While PVs have reported strong growth in FY23 and FY24, we believe the growth will taper off in FY25 on a high base and lack of exciting new launches from listed players.

Fig6: Q4FY24 Passenger Vehicle Estimates

Company	Revenue			EBITDA Margin (%)			PAT			Comment
	Q4 FY24E	YoY (%)	QoQ (%)	Q4 FY24E	YoY (bps)	QoQ (%)	Q4 FY24E	YoY (%)	QoQ (%)	
Maruti Suzuki	383,915	19.8	15.3	11.5	108	-20	35,366	34.8	12.8	Due to a higher share of cars (Mini category), MSIL likely to see margin impact QoQ
Mahindra & Mahindra	233,488	3.4	-7.7	12.3	-8	-48	17,938	-7.5	-26.9	An adverse mix likely to impact margins QoQ.
Total	**6,17,403**	**13.0**	**5.4**	**10.0**	**-68**	**-223**	**39,545**	**-0.3**	**-29.3**	QoQ decline due to significant other income earned by M&M in 3Q

Source: HSIE Research

Fig7: Maruti Suzuki Q4FY24 Volumes

(Units)	Q4FY24	YoY (%)	QoQ (%)
Mini: Alto, S-Presso	42,460	-27.9	56.8
Compact: Swift, Celerio, Ignis, Baleno, Dzire, new WagonR	218,004	-3.4	14.1
Mid-size: Ciaz	1,434	-31.5	-1.9
Total Cars	261,898	-8.6	19.2
UVs: Gypsy, Grand Vitara, S-Cross, Ertiga, Brezza	181,708	71.5	17.9
Vans: Eeco	36,185	3.2	8.9
LCVs: Super Carry	10,150	-11.0	25.0
Domestic sales	489,941	11.6	18.0
Sales to Other OEM	15,350	36.7	7.2
Exports	78,740	21.7	9.7
Total sales	584,031	13.4	16.5

Source: Company, HSIE Research

Fig8: Mahindra & Mahindra Q4FY24 Volumes

(Units)	Q4FY24	YoY (%)	QoQ (%)
Utility Vehicles	126,100	27.2	6.1
Pick-ups	58,693	-4.3	-4.7
CVs	8,543	143.8	101.2
Verito	0	-100.0	-100.0
Three Wheelers	17,086	-3.0	-19.7
Auto Exports	4,858	-34.1	-11.5
Total Automobile Sales	**215,280**	**13.8**	**1.8**
Total Tractors Sales	71,644	-20.2	-29.5
Total Sales	**286,924**	**2.9**	**-8.4**

Source: Company, HSIE Research

Commercial vehicle OEMs

- In CVs, VECV continues to outperform its peers and reported a volume decline of just 2% YoY. Both TTMT and AL have posted a 6% YoY decline in CV volumes in Q4.

Fig9: Q4FY24 CV Estimates

Company	Revenue			EBITDA Margin (%)			PAT			Comment
	Q4 FY24E	YoY (%)	QoQ (%)	Q4 FY24E	YoY (bps)	QoQ (%)	Q4 FY24E	YoY (%)	QoQ (%)	
Ashok Leyland	109,347	-5.9	17.9	11.4	45	-59	6,515	-6.3	12.2	Margin expansion YoY to be driven by soft input costs
Tata Motors	11,95,60	12.9	8.1	14.8	3	-158	47,079	-11.7	-33.0	JLR margins likely to decline by 186bps QoQ due to adverse mix and continued rise in ad spend; domestic CV margins to decline QoQ on lower volumes

Source: HSIE Research

Fig10: Ashok Leyland Q4FY24 Volumes

(Units)	Q4FY24	YoY (%)	QoQ (%)
Trucks	28,657	-16.1	20.0
Buses	8,492	34.1	51.3
M&HCV Sales	37,149	-8.3	26.0
LCV	19,120	-0.4	7.7
Total Sales	**56,269**	**-5.7**	**19.1**
Domestic	3,602	15.2	15.2
Exports	52,667	-6.9	19.4

Source: Company, HSIE Research

Fig11: Tata Motors (India business) Q4FY24 Volumes

(Units)	Q4FY24	YoY (%)	QoQ (%)
M&HCV	52,186	-6.9	12.1
LCV	57,253	-4.8	14.5
Commercial Vehicle	**109,439**	**-5.8**	**13.4**
Cars	41,201	-11.2	12.6
Utility Vehicles	114,450	28.2	12.3
Passenger Vehicles	155,651	14.7	12.4
Grand Total	265,090	5.3	12.8
Total Domestic	259,932	5.2	13.2
Total Exports	5,158	7.8	-4.0

Source: Company, HSIE Research

Fig12: Jaguar Land Rover Q4FY24 Volumes

(Units)	Q4FY24	YoY (%)	QoQ (%)
Jaguar	96,662	13.9	8.7
Land Rover	13,528	38.8	11.4
Total JLR	**110,190**	**16.4**	**9.1**

Source: Company, HSIE Research

Auto ancillary players

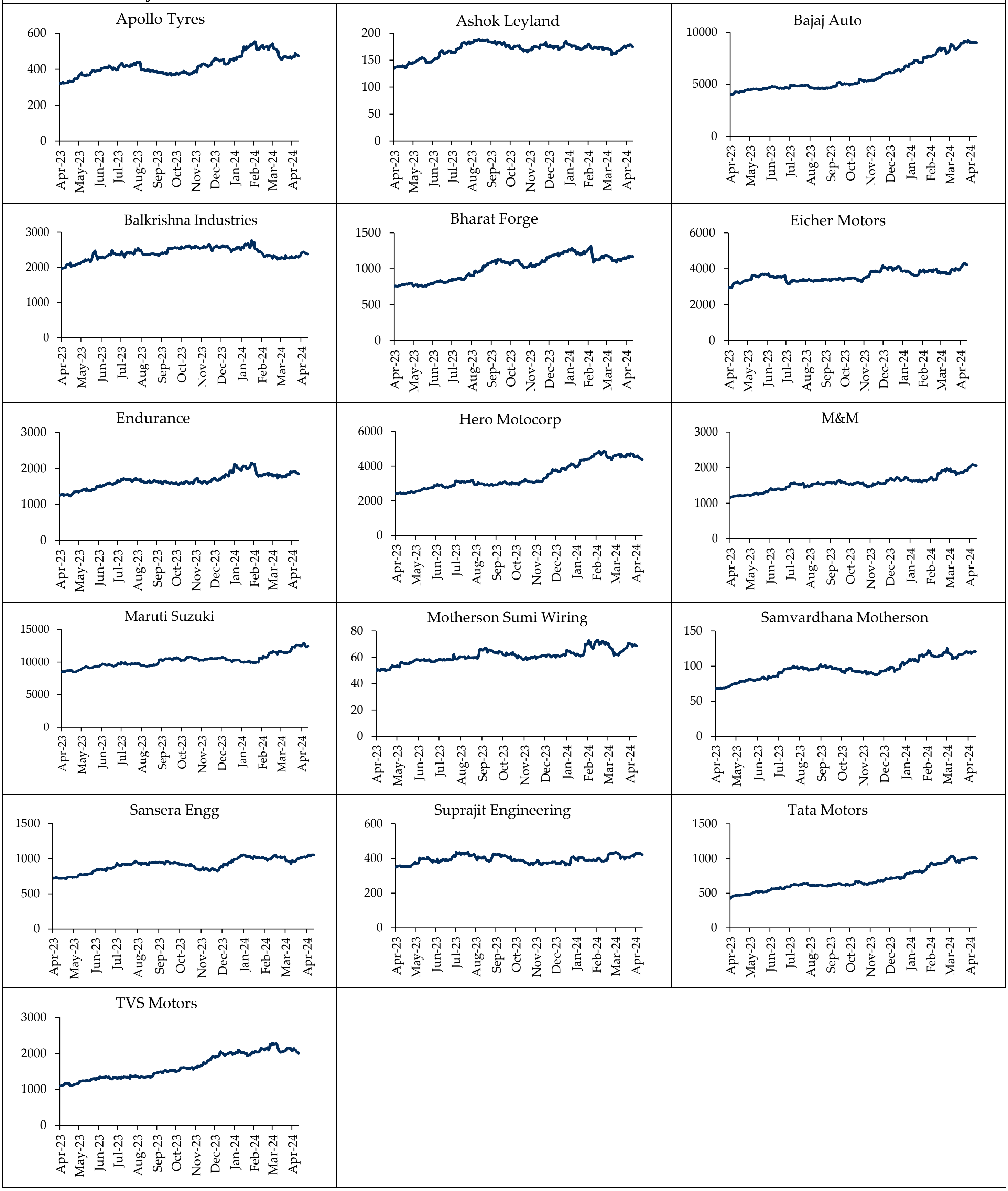
- Revenues of companies within our coverage universe are expected to grow by 14% YoY (+2% QoQ).
- Overall, companies in our coverage universe are expected to post 23% earnings growth YoY (+11% QoQ), led by steady revenue growth.

Fig13: Q3FY24 Auto Ancillary Estimates

Company	Revenue			EBITDA Margin (%)			PAT			Comment
	Q4 FY24E	YoY (%)	QoQ (%)	Q4 FY24E	YoY (bps)	QoQ (%)	Q4 FY24E	YoY (%)	QoQ (%)	
Apollo Tyres	63,460	1.6	-3.8	11,425	14.4	-5.4	4,763	15.7	-6.1	India business is expected to report 6% YoY revenue growth, led by replacement demand. The European business is likely to remain subdued. Increase in material costs could lead to a 31bps sequential decline in margins.
Balkrishna Industries	24,179	4.0	4.4	6,015	21.7	2.5	3,278	28.3	6.1	Revenue growth to be led by the India business as Europe business is expected to be subdued. Elevated freight costs due to the Red Sea crisis likely to weigh on margins.
Bharat Forge	40,773	12.4	5.5	7,171	63.5	2.8	3,154	87.4	24.8	Revenue growth to be led by ramp up of India defence business. Slowdown in Class 8 truck orders likely to impact US subsidiary revenues.
Endurance Technologies	25,578	14.5	-3.8	3,403	19.2	2.2	1,701	24.6	3.4	Standalone business expected to grow 16% YoY due to ramp up in 2W production. The revenue growth is likely to be offset by a weak Europe business.
Samvardhana Motherson	267,285	18.9	4.0	24,056	19.1	1.5	7,151	9.3	31.8	Ramp up of revenue from recent acquisition (Dr Schenider) to drive revenue growth. Interest cost likely to remain a key monitorable going forward.
Motherson Sumi Wiring	21,441	15.0	1.3	2,551	21.9	-2.6	1,631	17.8	-2.8	Increased content of wiring harness per vehicle to continue driving revenue growth.
Sansera Engineering	7,119	15.5	-0.1	1,221	29.7	1.2	487	38.6	1.5	Revenue growth YoY to be led by ramp up of aerospace and defence businesses.
Suprajit Engineering	7,709	10.3	6.4	847	-2.8	-2.9	447	9.1	11.1	
Total	**457,544**	**14.1**	**2.4**	**56,689**	**22.5**	**0.1**	**22,613**	**22.9**	**11.3**	

Source: HSIE Research

1 Yr Price history



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BUY: >+15% return potential
ADD: +5% to +15% return potential
REDUCE: -10% to +5% return potential
SELL: > 10% Downside return potential

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