

10 April 2024

India | Equity Research | Q4FY24 preview

## Automotives

### 4Ws to perform better vs. 2Ws; strong performance by ancillary players

We expect Q4FY24 YoY revenue/EBITDA/PAT growth of ~15%/~25%/~25% (ex-TTMT) with commensurate contribution from revenue growth and EBITDAM, pushing EBITDA growth. ~10% YoY volume growth in OEMs, ~5–6% growth in ASP and a dip in RM cost would be the key triggers for robust YoY earnings growth. EBITDA growth would likely be more pronounced for auto ancillary players on a YoY- basis driven by a recovery in exports, premiumisation in domestic auto production, scaling up of demand from domestic OEMs along with RM cost reversal. We expect tyre players to deliver strong YoY earnings growth of ~30% on the back of favourable RM basket cost. Overall, within OEMs, we expect 4Ws to deliver superior results vs. 2W players. Top picks: M&M and Eicher in OEMS; CIE India and SAMIL in ancillaries.

### ~25% YoY earnings growth for coverage universe in autos

We expect our auto + auto ancillary coverage (ex-TTMT) to deliver ~25% YoY EBITDA growth, helped by stronger revenue growth and better profitability, equably. Within OEMs, we expect EBITDA growth for 2Ws to be ~20% YoY vs. ~30% for 4Ws driven by strong volume/mix growth of UVs within PVs for all key players like MSIL, TTMT and M&M, vs. CVs/2Ws. EBITDA growth for auto companies would likely be broader and superior, at ~27%, with exports recovery, premiumisation in OEMs, tyre segment's improved margins and M&A in select cases driving growth. On a sequential basis, led by seasonality in OEM-level production along with steady profitability, we expect the ancillaries basket to record ~10% rise in EBITDA. Tyre players would likely see better margins as the lag effect of cheaper crude and natural rubber in Q3 reflecting this quarter (current rise in crude/rubber prices to impact next quarter).

### Key factors to watch out

- 1) Demand outlook for rural markets, as projected by managements, especially in Q1FY25 along with new launch pipeline, regulation changes impact and discount levels.
- 2) Progress pertaining to EV development, launches and pricing.
- 3) Continuity of exports revival, be it 2Ws or ancillaries, along with impact of Red Sea crisis.
- 4) Raw material situation and pricing discipline among players.
- 5) Continuity in acceptance of premiumisation across PVs/2Ws.
- 6) Competitive intensity build up in UVs, premium bikes and e-2Ws.
- 7) M&A/divestment progress.
- 8) Players investing EVs in the form of product development/distribution.
- 9) CV demand beyond H1FY25 and demand drivers.

### Our view

With BSE auto index delivering ~38% return (trailing 6 months) and with majority of stocks trading above FY25E-earnings-based fair value, margin execution and any change in demand outlook would be crucial. We believe, the ~25% YoY earnings growth in the space would not be the parameter to focus, as high growth on a favourable base is already built into valuations. With CVs stagnating, along with a softer growth outlook for PVs in FY25 (elevated base effect), triggers for further upgrades are necessary for the majority to justify BUY ratings. We are cautious on CV-driven companies at current valuations. Within PV players, we remain positive on M&M as portfolio transition and stronger profitability may likely help re-rate the stock ahead, amid the possibility of FY25 being another soft year for the tractor segment.

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**Exhibit 1: Q4FY24 preview**

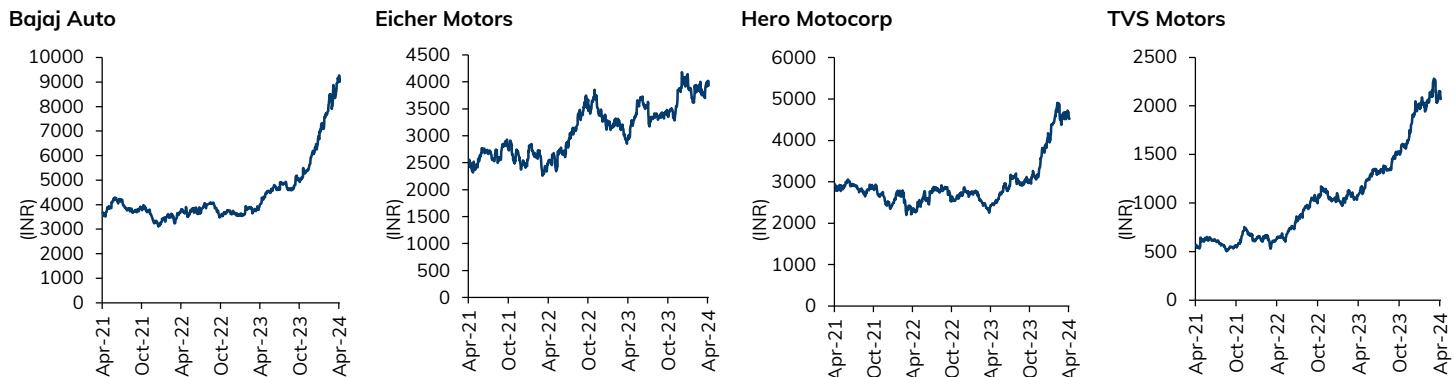
Company (INR mn)	Revenue			EBITDA			Adjusted PAT			Price Target	Rating
	Q4FY24E	(YoY)	(QoQ)	Q4FY24E	(YoY)	(QoQ)	Q4FY24E	(YoY)	(QoQ)		
<b>OEMs</b>											
Bajaj Auto	1,07,985	21%	-11%	21,016	22%	-14%	17,835	24%	-13%	7,274	HOLD
Eicher Motors	42,526	12%	2%	11,004	18%	1%	10,954	21%	10%	4,512	BUY
Hero Motocorp	93,292	12%	-4%	12,920	19%	-5%	10,275	20%	-4%	5,159	ADD
TVS Motors	79,690	21%	-3%	8,469	25%	-8%	5,339	30%	-10%	2,102	ADD
Ashok Leyland	1,13,101	-3%	22%	14,737	16%	32%	8,682	25%	50%	177	HOLD
M&M	2,38,147	6%	-6%	28,760	3%	-11%	20,785	1%	-15%	2,248	BUY
Maruti Suzuki	3,91,301	22%	17%	51,195	53%	31%	40,841	56%	30%	11,248	ADD
Tata Motors	12,06,346	14%	9%	1,77,018	35%	15%	71,313	99%	30%	901	REDUCE
<b>Ancillaries</b>											
Asahi India	10,656	3%	7%	1,806	4%	10%	756	9%	11%	475	SELL
Apollo Tyres	63,500	2%	-4%	12,100	21%	0%	5,084	31%	-1%	468	REDUCE
ASK Automotive	7,800	-	2%	885	-	10%	572	-	14%	405	BUY
Balkrishna Inds.	23,680	2%	2%	5,786	23%	-1%	3,266	28%	6%	2,820	BUY
Bharat Forge	23,450	17%	4%	6,900	32%	4%	4,000	36%	6%	963	REDUCE
Bosch	45,000	11%	7%	6,750	29%	17%	5,258	32%	11%	22,864	SELL
CEAT	30,000	4%	1%	3,820	4%	-9%	1,509	7%	-17%	2,047	SELL
Craftsman Automation	11,700	19%	4%	2,399	27%	9%	972	21%	19%	5,728	BUY
Landmark Cars	10,100	18%	5%	739	21%	13%	279	7%	46%	813	ADD
CIE India	24,000	-2%	7%	3,655	-4%	12%	2,005	-9%	13%	570	BUY
MSWIL	22,250	19%	5%	2,815	35%	7%	1,810	31%	8%	69	ADD
Samvardhana Motherson	2,72,290	21%	6%	26,684	32%	13%	6,184	-5%	14%	140	BUY
Sansera Engineering	7,500	22%	5%	1,323	40%	10%	555	58%	16%	1,276	BUY
Sona Comstar	8,000	8%	3%	2,340	16%	3%	1,370	12%	3%	668	BUY
Varroc Engineering	20,000	18%	6%	2,050	31%	17%	725	81%	22%	637	ADD
ZFI	9,800	0%	9%	1,504	4%	13%	1,130	12%	12%	14,003	REDUCE

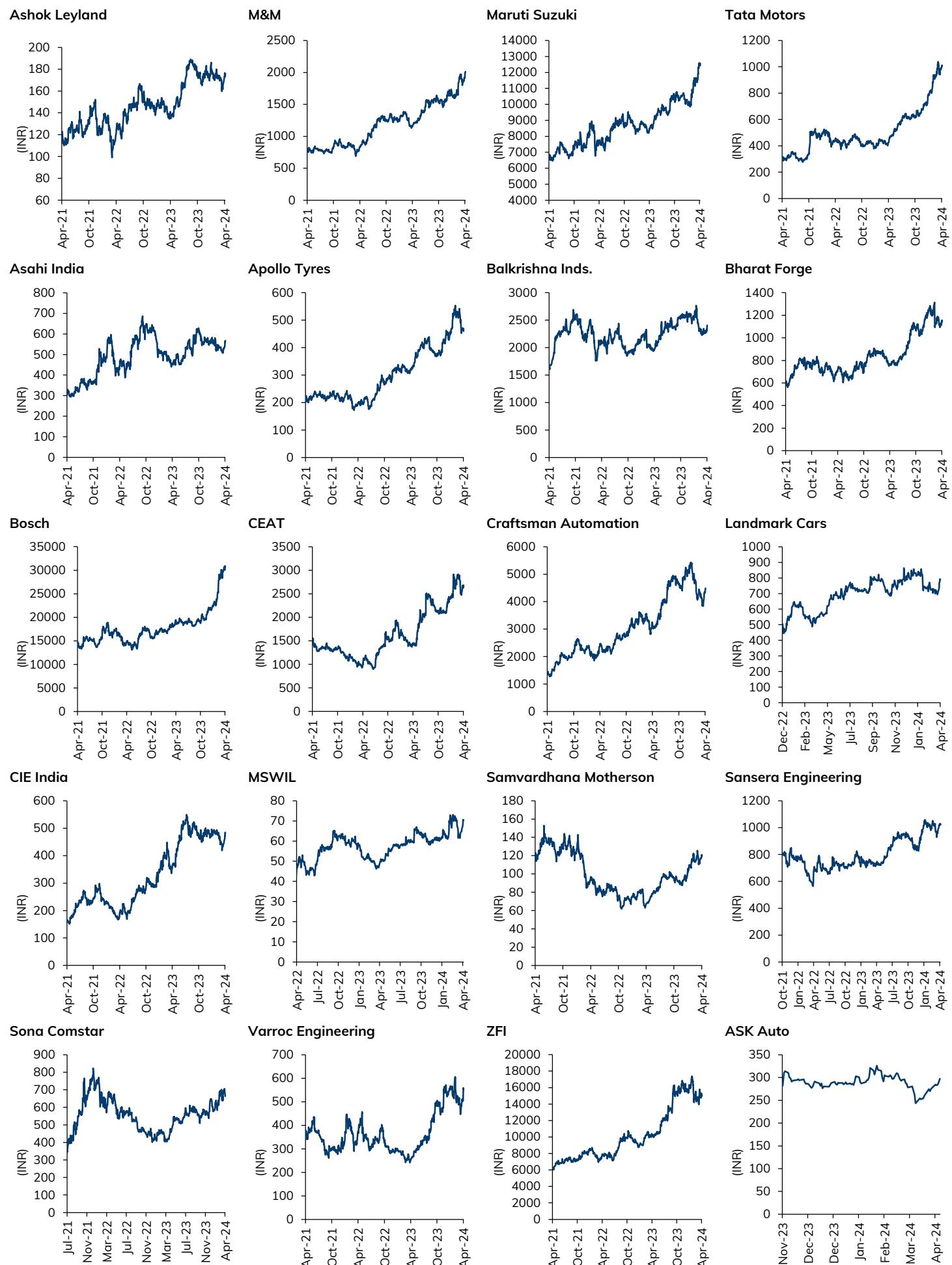
Source: I-Sec research

**Exhibit 2: Commodity price trends**

Commodity	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
INR - USD	74.98	75.22	77.23	79.82	82.04	82.35	82.21	82.66	83.27	83.04
INR - GBP	101.06	100.93	97.06	93.95	94.61	100.13	102.87	104.70	103.32	105.31
JPY - USD	113.71	116.25	129.71	138.39	144.33	132.80	137.44	144.61	147.80	148.43
GBP - USD	1.35	1.34	1.26	1.18	1.16	1.22	1.25	1.27	1.24	1.27
EUR - GBP	0.85	0.84	0.85	0.86	0.87	0.88	0.87	0.86	0.87	0.86
EUR - INR	84.93	84.27	82.26	80.39	86.12	88.02	89.44	89.95	89.67	90.19
LEAD (USD/MT)	2,298	2,328	2,205	1,975	2,036	2,166	2,099	2,157	2,125	2,087
HRC China (CNY/MT)	5,057	5,033	4,910	4,079	4,109	4,239	3,948	3,938	3,955	3,977
Aluminium (USD/MT)	2,759	3,245	2,905	2,357	2,322	2,474	2,283	2,204	2,226	2,241
Brent (USD/bbl)	80	97	112	98	92	83	78	86	83	82
Rubber RSS4 (INR/kg)	177	167	174	163	150	141	155	149	152	167

Source: Bloomberg

**Price charts**




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