



"Once you have a large production, then you will get to know the actual demand pattern...We have not been able to produce as per the underlying demand pattern. The visibility for the future availability of semiconductors is actually limited. We keep getting updates every week and we keep modifying our estimate, but one thing I can tell you is that in this quarter we will not see 100% normalization,"

Mr. Shashank Srivastava Senior Executive Director, Sales and Marketing, MSIL

PV wholesales continue to improve; CV demand is stable

Revival in 2W demand hinges on the festive season

- Our interaction with leading industry channel partners indicate a mixed bag for Autos. PV wholesales are improving due to an improvement in semiconductor supplies. 2W retail demand was expected to pick-up in Aug'22, but the same has not yet materialized. CV demand remains stable, while Tractor retails are weak due to an uneven rainfall.
- In Aug'22, wholesale volumes are estimated to grow by 5%/51%/11%/27%/flat YoY for 2Ws/PVs/3Ws/CVs/Tractors.
- **2Ws:** July and August are considered weak months for 2W retails. However, an improvement was expected in Aug'22, given the mini-festivals in some parts of India though Ganesh festival related demand is yet to come (starts 31st Aug). Though this has not panned out well, dealers expect retails to pick up during the festive season. Initial feedback about the newly launched RE Hunter has been encouraging as it has been successful in attracting non-RE customers to showrooms. Improvement in RE's supply-chain should reflect in improved wholesales. Some Xtec variants in HMCL's Entry/Exe level portfolio are facing semiconductor shortages. Inventory in the system stands at 60-65 days in run-up to the festive season. We expect 2W wholesales for BJAUT/TVSL to decline by ~4%/~12% YoY (domestic 2W growth of 8%/15%), remain flat for HMCL, and grow by ~52.5% for RE.
- **PVs:** The waiting period for PVs has fallen due to improving semiconductor supplies. The manual variants for TTMT are readily available, while there is a waiting period for automatic variants. For MSILs Grand Vitara, the strong hybrid variants constitute ~50% of bookings. There has been a 10-15% impact on CNG vehicle bookings due to rising gas prices. For MSIL, CNG constitutes ~35% of its order book. Inventory in the system is ~30 days. Volumes are expected to grow by 37.5% YoY for MSIL, over 90% for M&M (UVs including Pick-ups), and more than 71% for TTMT's PV business.
- **CVs:** Retails have been slow as August is a seasonally weak month. Demand from Cargo operators with long-term contracts remain buoyant. OEMs are offering discounts to gain market share, but this is expected to be temporary. The recent hike in interest rates has led to some adverse impact on demand. Financing is not a constraint, but underwriting remains stringent. LTV remains rangebound at 85-90% for large operators and lower for small operators. Inventory in the channel is at optimal levels of 20-30 days. We expect CV wholesales for AL to grow by 52% YoY (up 82%/22% in M&HCVs/LCVs), by 20% for TTMT (up 28%/15% in M&HCVs/LCVs), and by 30% for VECV.
- **Tractors:** August remains a seasonally weak month for Tractors. Deficient rainfall in Uttar Pradesh, Bihar, and Jharkhand, led to lower Kharif sowing, thus affecting farmer sentiment. Agricultural demand is currently subdued, while Commercial demand is flat. Inventory in the system is ~30 days. Tractor volumes are expected to grow by ~4% YoY for MM, but decline 15% for ESC.
- **3W:** We expect 3W volumes to grow by 11% YoY, aided by a 14%/70% (on a low base) growth in BJAUTO/MM and a 5% decline for TVSL. Exports for BJAUTO are expected to grow by 5% YoY, but remain flat for TVSL.
- **Valuation and view:** An improvement in semiconductor supplies is boosting PV wholesales. The demand momentum in CVs is sustaining. Demand for 2Ws hinge

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on festive sentiment. We prefer 4Ws over 2Ws on the back of strong demand and as it offers a stable competitive environment. We expect momentum in the CV cycle to continue. We prefer companies with: a) a higher visibility in terms of a demand recovery, b) a strong competitive positioning, c) margin drivers, and d) Balance Sheet strength. **MSIL** and **AL** are our top OEM picks. Among Auto Component stocks, we prefer **BHFC** and **APTY**.

Snapshot of volumes for Aug'22

Company sales	YoY			MoM							Residual growth (%)	Residual monthly run-rate	Apr-Aug'22 monthly run-rate
	Aug'22	Aug'21	Change (%)	Jul'22	Change (%)	Apr-Aug'22	Apr-Aug'21	Change (%)	FY23E	Growth (%)			
Maruti Suzuki	1,79,770	1,30,699	37.5	1,75,916	2.2	8,23,617	6,46,775	27.3	20,30,994	22.9	20.1	1,72,482	1,64,723
LCVs	3,106	2,588	20.0	2,816	10.3	16,739	9,412	77.8	42,265	25.0	4.6	3,647	3,348
Vans	12,266	10,666	15.0	13,048	-6.0	57,080	42,506	34.3	1,28,389	18.5	8.3	10,187	11,416
Mini segment	20,870	20,461	2.0	20,333	2.6	90,190	87,386	3.2	2,20,898	4.3	5.1	18,673	18,038
Compact (incl. Dzire Tour)	92,095	47,228	95.0	92,309	-0.2	4,00,605	2,87,201	39.5	9,10,620	25.3	16.0	72,859	80,121
Mid-size - Ciaz	1,395	2,146	-35.0	1,379	1.2	5,446	6,114	-10.9	15,076	-5.0	-1.3	1,376	1,089
UVs	29,420	26,991	9.0	25,720	14.4	1,43,191	1,26,794	12.9	4,12,628	30.0	41.4	38,491	28,638
Domestic	1,59,151	1,10,080	44.6	1,55,605	2.3	7,13,250	5,59,413	27.5	17,29,876	3.8	-8.2	1,45,232	1,42,650
Export	20,619	20,619	0.0	20,311	1.5	1,10,367	87,362	26.3	3,01,118	26.3	26.3	27,250	22,073
Mahindra & Mahindra	79,590	51,945	53.2	79,455	0.2	4,31,016	3,08,938	39.5	10,45,628	16.1	3.8	87,802	86,203
UVs (incl. Pick-ups)	52,216	27,482	90.0	50,989	2.4	2,44,052	1,50,808	61.8	6,09,304	42.0	31.3	52,179	48,810
LCVs and M&HCVs	755	512	47.5	808	-6.5	3,516	1,808	94.5	9,210	43.1	23.1	813	703
Three-Wheelers	4,405	2,591	70.0	4,351	1.2	19,418	7,804	148.8	51,134	70.0	42.4	4,531	3,884
Tractors	22,214	21,360	4.0	23,307	-4.7	1,64,030	1,48,518	10.4	3,75,980	6.0	2.8	30,278	32,806
Tata Motors	83,858	57,995	44.6	81,790	2.5	3,96,896	2,26,898	74.9	9,78,649	34.8	16.5	83,107	79,379
HCVs	13,519	10,562	28.0	12,974	4.2	66,189	38,094	73.8	1,85,900	28.7	12.5	17,102	13,238
LCVs	22,102	19,219	15.0	21,180	4.4	1,04,507	65,680	59.1	2,66,772	27.3	12.8	23,181	20,901
CVs	35,621	29,781	19.6	34,154	4.3	1,70,696	1,03,774	64.5	4,52,672	27.9	12.7	40,282	34,139
Cars	14,110	13,567	4.0	13,947	1.2	69,723	62,266	12.0	1,64,906	14.0	15.5	13,598	13,945
UVs	34,128	14,647	133.0	33,689	1.3	1,56,478	60,858	157.1	3,61,071	58.7	22.8	29,228	31,296
Hero MotoCorp	4,62,957	4,53,879	2.0	4,45,580	3.9	22,98,730	19,32,766	18.9	56,26,747	13.8	10.5	4,75,431	4,59,746
Bajaj Auto	3,66,600	3,73,270	-1.8	3,54,670	3.4	16,54,916	17,48,400	-5.3	47,01,576	9.1	19.0	4,35,237	3,30,983
Motorcycles	3,26,602	3,38,310	-3.5	3,15,054	3.7	14,88,814	15,68,184	-5.1	41,91,338	9.2	19.1	3,86,075	2,97,763
Two-Wheelers	3,26,602	3,38,310	-3.5	3,15,054	3.7	14,88,814	15,68,184	-5.1	41,91,338	9.2	19.1	3,86,075	2,97,763
Three-Wheelers	39,998	34,960	14.4	39,616	1.0	1,66,102	1,80,216	-7.8	5,10,238	8.2	18.1	49,162	33,220
Domestic	1,89,254	1,72,595	9.7	1,82,956	3.4	7,25,046	6,97,005	4.0	20,85,494	15.7	23.1	1,94,350	1,45,009
Exports	1,77,346	2,00,675	-11.6	1,71,714	3.3	9,29,870	10,51,395	-11.6	26,16,083	4.4	15.9	2,40,888	1,85,974
Ashok Leyland	14,198	9,360	51.7	13,625	4.2	67,474	35,997	87.4	1,78,173	38.8	19.9	15,814	13,495
M&HCVs	8,430	4,632	82.0	8,148	3.5	41,565	17,504	137.5	1,08,966	47.5	19.5	9,629	8,313
LCVs	5,768	4,728	22.0	5,477	5.3	25,909	18,493	40	69,207	27.1	20.4	6,185	5,182
TVS Motor	3,22,290	2,90,694	10.9	3,14,639	2.4	15,43,720	12,27,307	25.8	38,75,978	17.1	12.0	3,33,180	3,08,744
Motorcycles	1,53,857	1,33,789	15.0	1,50,340	2.3	7,37,859	6,77,850	8.9	19,06,412	10.1	10.9	1,66,936	1,47,572
Scooters	1,11,436	87,059	28.0	1,10,196	1.1	5,29,707	3,00,206	76.4	12,47,247	35.2	15.3	1,02,506	1,05,941
Mopeds	41,435	53,465	-22.5	39,122	5.9	1,99,615	1,77,686	12.3	5,31,223	9.9	8.5	47,373	39,923
Three-Wheelers	15,562	16,381	-5.0	14,981	3.9	76,539	71,565	7.0	1,91,095	11.2	14.2	16,365	15,308
Domestic	2,06,867	1,80,767	14.4	2,02,607	2.1	9,78,144	6,86,142	42.6	24,80,747	20.6	9.7	2,14,658	1,95,629
Exports	1,15,423	1,09,927	5.0	1,12,032	3.0	5,65,576	5,41,165	4.5	13,95,231	11.3	16.5	1,18,522	1,13,115
Eicher Motors													
Royal Enfield	69,937	45,860	52.5	55,555	25.9	3,12,697	2,13,538	46.4	8,29,838	37.8	33.0	73,877	62,539
VECV	6,238	4,793	30.1	5,982	4.3	29,689	14,870	99.7	79,584	39.5	18.2	7,128	5,938
Escorts	4,832	5,693	-15.1	5,360	-9.9	36,989	38,192	-3.1	98,939	5.0	10.6	8,850	7,398

Comparative valuations

Auto OEMs	Rating	M-cap	CMP	TP	P/E (x)			EV/EBITDA (x)			P/B (x)			FY24E yield (%)		EPS
		(INR b)	(INR)	(INR)	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	Div.	FCF	CAGR (%) FY22-24E
Bajaj Auto	Neutral	1,173	4,053	4,200	22.1	17.9	16.2	18.2	13.4	11.8	4.4	4.5	4.3	4.7	4.5	16.8
Hero MotoCorp	Buy	565	2,826	3,225	22.8	18.8	14.8	13.5	10.5	8.3	3.6	3.4	3.2	4.4	7.1	24.1
TVS Motor	Neutral	453	953	820	50.4	30.5	26.2	24.0	16.6	14.1	9.4	7.5	6.0	0.6	3.9	38.7
Eicher Motors	Buy	916	3,354	3,600	54.7	30.7	22.3	41.0	24.1	19.3	7.3	6.1	5.0	0.7	4.4	56.7
Maruti Suzuki	Buy	2,634	8,719	11,300	69.9	38.3	23.0	39.1	21.7	14.7	4.9	4.5	3.9	1.5	3.5	72.6
M&M	Buy	1,522	1,274	1,403	29.6	22.9	17.4	21.9	15.9	11.9	2.0	1.7	1.5	0.8	4.6	30.6
Tata Motors	Buy	1,780	465	520	-16.5	87.0	17.6	10.0	6.2	4.4	4.0	3.8	3.1	0.0	14.0	LTP
Ashok Leyland	Buy	439	149	185	1,415.2	47.9	20.6	47.0	20.0	11.9	6.3	6.0	5.7	1.3	5.3	728.0
Escorts	Neutral	226	1,840	1,575	26.6	26.3	22.7	21.0	19.1	12.1	2.7	2.5	2.5	0.5	3.8	8.2
Auto Ancillaries																
Bharat Forge	Buy	341	732	860	33.8	27.6	22.0	19.8	17.1	14.4	5.2	4.5	3.9	0.9	4.6	23.8
Exide Industries	Buy	137	161	200	16.3	14.4	12.2	10.0	10.0	9.7	1.3	1.2	1.1	2.0	7.8	15.4
Amara Raja	Neutral	88	517	555	17.3	16.4	11.5	8.6	8.4	6.1	1.9	1.8	1.7	2.9	5.7	22.8
BOSCH	Neutral	508	17,213	16,150	41.7	38.1	28.5	33.7	25.9	20.1	4.7	4.4	3.9	0.9	1.5	20.9
Endurance Tech.	Buy	205	1,456	1,650	42.2	37.7	26.2	21.2	18.5	13.9	5.2	4.8	4.2	1.0	2.4	26.9
Motherson Sumi	Buy	394	125	165	68.4	32.6	17.9	13.1	10.5	7.7	2.7	2.6	2.3	2.4	7.2	95.4
Mahindra CIE	Buy	107	282	315	20.4	14.7	12.6	11.2	9.0	7.2	2.1	1.8	1.7	1.3	4.4	27.0
CEAT	Buy	56	1,379	1,460	70.3	40.1	14.5	10.8	9.2	5.9	1.7	1.7	1.5	0.9	9.3	119.8
Balkrishna Ind.	Neutral	396	2,048	2,300	26.7	26.7	20.8	18.6	17.0	13.1	5.7	5.0	4.3	1.5	2.6	13.3
MRF	Neutral	362	85,275	80,000	54.0	46.1	23.9	17.1	14.6	9.8	2.6	2.5	2.2	0.2	3.3	50.5
Apollo Tyres	Buy	140	246	310	21.8	15.1	10.7	7.8	5.7	4.4	1.2	1.1	1.0	1.8	11.4	42.8
Sona BLW	Neutral	304	531	645	91.2	73.4	47.6	58.9	44.6	30.1	15.5	13.4	11.0	0.5	1.0	38.4
Tube Investments	Buy	402	2,141	2,367	42.4	36.3	27.9	29.0	22.8	17.9	13.5	10.7	8.5	0.4	3.8	23.2
Motherson Sumi Wiring	Buy	253	80	95	55.1	41.4	31.7	34.2	25.6	20.2	22.7	17.4	13.0	1.6	2.8	31.9

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