



“If we look at the entire industry, pending orders should be in the 0.7-0.75m unit range. Now, how production gets ramped up will determine how well the industry performs”
– Mr. Shashank Srivastava, Executive Director, MSIL

Inventory build-up in 2W for the festive season started in Aug'22

Demand stable for 4Ws/CVs; 2W exports weak

Wholesales in Aug'22 for 2Ws and Tractors were in line, while that for PVs and CVs were below our estimate. PV wholesales were flat sequentially. Model launches and order backlog by OEMs will help sustain PV demand. Domestic 2W wholesales have started picking up, while exports remain under stress. CV demand remains stable. Among 2Ws, wholesales for TVSL/RE/HMCL were in line, while that for BJAUTO were above our estimate. Volumes for 2Ws/PVs/CVs/3Ws/Tractors grew 8%/43%/16%/28%/2% YoY.

- **2Ws – inline, up 8% YoY:** Domestic wholesales for OEMs were above our estimate, indicating a build-up in inventory ahead of the upcoming festive season, while exports were under stress. Semiconductor shortages for OEMs are showing signs of easing. As per our channel checks, dealer inventory stands at 55-60 days (v/s 30-45 days in 1QFY23). Volumes grew 5%/2%/15%/53% YoY for BJAUTO/HMCL/TVSL/RE.
- **PVs – below our estimate, up 43% YoY:** Retail demand remains stable. Easing semiconductor shortages has led to a decline in the waiting period for models across OEMs, though the situation remains uncertain. Order backlog for MSIL stands ~387k units, with Brezza garnering bookings of 100k units. MSIL, MM (UVs including Pickups), and TTMT's PV volumes grew 26%, 95%, and 68% YoY, respectively.
- **CVs – below our estimate, up 16% YoY:** Both M&HCV and LCV volumes were below our estimate. M&HCV/LCV volumes grew 29%/7% YoY. Volumes for AL/TTMT/VECV grew 51%/6%/4% YoY.
- **Tractors – inline grew 2% YoY:** The monsoons have largely remained above its LPA, but uneven rainfall in key paddy states in eastern India is impacting sowing. Tractor volumes for MM remained flat YoY, but grew 7% for ESC.

Key highlights from the monthly volumes:

- **2Ws:** Growth in domestic wholesales indicates a buildup in inventory ahead of the festive season. Retail demand is picking up slowly. Semiconductor shortages for OEMs are easing due to alternate sourcing from suppliers. Exports remain subdued due to issues in export markets. Exports to Nigeria for BJAUTO were almost negligible as highlighted by the management. RE posted its highest ever wholesales in Apr-Aug'22, which indicates that supply chain issues are largely behind it.

Beat (Variance %)	In line (Variance %)	Disappointment (Variance %)
BJAUTO (+9.5%)	AL (-0.5%)	MSIL (-8%)
ESCORTS (+26.5%)	EIM – RE (0%)	TTMT CV (-12%)
	MM (+1%)	EIM – VECV (-20%)
	TVSL (+4%)	
	HMCL (0%)	
	TTMT PV (-2%)	

Valuation and view: While easing semiconductor supplies boosted PV retails, and increasing economic activity and higher capacity utilization propelled CVs, the 2W segment is yet to recover amid a high cost of ownership. We prefer 4Ws over 2Ws on the back of strong demand and a stable competitive environment. We expect the

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**.

Exhibit 1: Snapshot of volumes for Aug-22

Company	YoY			MoM							Residual growth (%)	Residual monthly run-rate	Apr-Aug'22 monthly run-rate
	Aug'22	Aug'21	Chg. (%)	Jul'22	Chg. (%)	Apr-Aug'22	Apr-Aug'21	Chg. (%)	FY23E	Gr. (%)			
Maruti Suzuki	1,65,173	1,30,699	26.4	1,75,916	-6.1	8,09,020	6,46,775	25.1	20,30,994	22.9	21.5	1,74,568	1,61,804
LCVs	3,371	2,588	30.3	2,816	19.7	17,004	9,412	80.7	42,265	25.0	3.5	3,609	3,401
Vans	11,999	10,666	12.5	13,048	-8.0	56,813	42,506	33.7	1,28,389	18.5	8.7	10,225	11,363
Mini segment	22,162	20,461	8.3	20,333	9.0	91,482	87,386	4.7	2,20,898	4.3	4.1	18,488	18,296
Compact (incl. Dzire Tour)	75,058	47,228	58.9	92,309	-18.7	3,83,568	2,87,201	33.6	9,10,620	25.3	19.8	75,293	76,714
Midsize - Ciaz	1,516	2,146	-29.4	1,379	9.9	5,567	6,114	-8.9	15,076	-5.0	-2.5	1,358	1,113
UVs	29,586	26,991	9.6	25,720	15.0	1,43,357	1,26,794	13.1	4,12,628	30.0	41.3	38,467	28,671
Domestic	1,43,692	1,10,080	30.5	1,55,605	-7.7	6,97,791	5,59,413	24.7	17,29,876	3.8	-6.8	1,47,441	1,39,558
Export	21,481	20,619	4.2	20,311	5.8	1,11,229	87,362	27.3	3,01,118	26.3	25.7	27,127	22,246
M&M	80,569	51,945	55.1	79,455	1.4	4,31,995	3,08,938	39.8	10,45,628	16.1	3.7	87,662	86,399
UVs (incl. Pickups)	53,600	27,482	95.0	50,989	5.1	2,45,436	1,50,808	62.7	6,09,304	42.0	30.8	51,981	49,087
LCVs and M&HCVs	656	512	28.1	808	-18.8	3,417	1,808	89.0	9,210	43.1	25.2	828	683
Three-Wheelers	4,793	2,591	85.0	4,351	10.2	19,806	7,804	153.8	51,134	70.0	40.6	4,475	3,961
Tractors	21,520	21,360	0.7	23,307	-7.7	1,63,336	1,48,518	10.0	3,75,980	6.0	3.1	30,378	32,667
Tata Motors	78,843	57,995	35.9	81,790	-3.6	3,91,881	2,26,898	72.7	9,78,649	34.8	17.5	83,824	78,376
HCVs	12,846	10,953	17.3	12,974	-1.0	65,516	38,485	70.2	1,85,900	28.7	13.6	17,198	13,103
LCVs	18,646	18,828	-1.0	21,180	-12.0	1,01,051	65,289	54.8	2,66,772	27.3	14.9	23,674	20,210
CVs	31,492	29,781	5.7	34,154	-7.8	1,66,567	1,03,774	60.5	4,52,672	27.9	14.3	40,872	33,313
PVs	47,351	28,214	67.8	47,636	-0.6	2,25,314	1,23,124	83.0	5,25,976	41.3	20.7	42,952	45,063
Hero MotoCorp	4,62,608	4,53,879	1.9	4,45,580	3.9	22,98,381	19,32,766	18.9	56,26,747	13.8	10.5	4,75,481	4,59,676
Bajaj Auto	4,01,595	3,73,270	7.6	3,54,670	13.2	16,89,911	17,48,400	-3.3	47,01,576	9.1	17.6	4,30,238	3,37,982
Motorcycles	3,55,625	3,38,310	5.1	3,15,054	12.9	15,17,837	15,68,184	-3.2	41,91,338	9.2	17.8	3,81,929	3,03,567
Two-Wheelers	3,55,625	3,38,310	5.1	3,15,054	12.9	15,17,837	15,68,184	-3.2	41,91,338	9.2	17.8	3,81,929	3,03,567
Three-Wheelers	45,970	34,960	31.5	39,616	16.0	1,72,074	1,80,216	-4.5	5,10,238	8.2	16.1	48,309	34,415
Domestic	2,56,755	1,72,595	48.8	1,82,956	40.3	7,92,547	6,97,005	13.7	20,85,494	15.7	17.0	1,84,707	1,58,509
Exports	1,44,840	2,00,675	-27.8	1,71,714	-15.7	8,97,364	10,51,395	-14.7	26,16,083	4.4	18.1	2,45,531	1,79,473
Ashok Leyland	14,121	9,360	50.9	13,625	3.6	67,397	35,997	87.2	1,78,173	38.8	20.0	15,825	13,479
M&HCVs	8,379	4,632	80.9	8,148	2.8	41,514	17,504	137.2	1,08,966	47.5	19.6	9,636	8,303
LCVs	5,742	4,728	21.4	5,477	4.8	25,883	18,493	40	69,207	27.1	20.5	6,189	5,177
TVS Motor	3,33,787	2,90,694	14.8	3,14,639	6.1	15,55,217	12,27,307	26.7	38,75,978	17.1	11.5	3,31,537	3,11,043
Motorcycles	1,57,118	1,33,789	17.4	1,50,340	4.5	7,41,120	6,77,850	9.3	19,06,412	10.1	10.6	1,66,470	1,48,224
Scooters	1,21,866	87,059	40.0	1,10,196	10.6	5,40,137	3,00,206	79.9	12,47,247	35.2	13.6	1,01,016	1,08,027
Mopeds	36,555	53,465	-31.6	39,122	-6.6	1,94,735	1,77,686	9.6	5,31,223	9.9	10.1	48,070	38,947
Three-Wheelers	18,248	16,381	11.4	14,981	21.8	79,225	71,565	10.7	1,91,095	11.2	11.5	15,981	15,845
Domestic	2,40,676	1,80,767	33.1	2,02,607	18.8	10,11,953	6,86,142	47.5	24,80,747	20.6	7.2	2,09,828	2,02,391
Exports	93,111	1,09,927	-15.3	1,12,032	-16.9	5,43,264	5,41,165	0.4	13,95,231	11.3	19.7	1,21,710	1,08,653
Eicher Motors													
Royal Enfield	70,112	45,860	52.9	55,555	26.2	3,12,872	2,13,538	46.5	8,29,838	37.8	33.0	73,852	62,574
VECV	5,003	4,793	4.4	5,982	-16.4	28,454	14,870	91.4	79,584	39.5	21.2	7,304	5,691
Dom. LMD Trucks	2,670	2,919	-8.5	2,709	-1.4	13,269	7,997	65.9	25,116	26.0	-0.7	1,692	2,654
Dom. HD Trucks	1,045	755	38.4	1,365	-23.4	6,073	2,824	115.0	7,714	47.0	-32.3	234	1,215
Dom. Buses	815	190	328.9	1,286	-36.6	5,931	567	946.0	2,333	210.0	-2,038.8	-514	1,186
VTI	110	126	-12.7	121	-9.1	595	369	61.2	1,079	10.0	-20.9	69	119
Domestic	4,640	3,990	16.3	5,481	-15.3	25,868	11,757	120.0	36,242	44.3	-22.3	1,482	5,174
Exports	363	803	-54.8	501	-27.5	2,586	3,113	-16.9	5,025	11.3	73.9	348	517
Escorts	6,111	5,693	7.3	5,360	14.0	38,268	38,192	0.2	98,939	5.0	8.3	8,667	7,654
Domestic	5,308	4,920	7.9	4,704	12.8	34,620	35,475	-2.4	90,690	4.2	8.7	8,010	6,924
Exports	803	773	3.9	656	22.4	3,648	2,717	34	8,249	15	3.0	657	730
Const. Equipment	225	307	-26.7	302	-25.5	1,493	1,280	17	4,529	10	7.0	434	299

Exhibit 2: Snapshot of volumes for Aug-22 (incl Exports)*

Company Sales	YoY			MoM		FY23YTD	(%) chg	FY23E	Gr (%)
	Aug-22	Aug-21	YoY (%) chg	Jul-22	MoM (%) chg				
2W	12,03,884	11,12,362	8.2	11,15,847	7.9	56,05,082	15.1	1,43,32,805	14.5
Cars	1,34,327	1,04,021	29.1	1,48,279	-9.4	6,61,569	24.7	16,12,618	1.4
Uvs + MPVs	1,28,426	79,786	61.0	1,23,446	4.0	6,01,197	57.8	15,11,391	39.7
PVs	2,62,753	1,83,807	43.0	2,71,725	-3.3	12,62,766	38.6	31,24,009	16.9
3Ws	69,011	53,932	28.0	58,948	17.1	2,71,105	4.4	7,52,468	11.7
M&HCVs	26,228	20,378	28.7	27,104	-3.2	1,35,484	91.2	3,74,450	35.9
LCVs	28,415	26,656	6.6	30,281	-6.2	1,47,355	55.1	3,87,454	27.4
CVs	54,643	47,034	16.2	57,385	-4.8	2,82,839	70.5	7,61,903	31.4
Tractors	27,631	27,053	2.1	28,667	-3.6	2,01,604	8.0	4,74,919	5.8

* 2W: HMCL, TVSL, EIM BJAUTO; PVs: MSIL, MM & TTMT; 3Ws: TVSL, MM & BJAUTO; CVs: TTMT, AL, MM, EIM; Tractors: MM, ESC

Exhibit 3: Comparative valuations

	Rating	M-cap	CMP	TP	P/E (x)			EV/EBITDA (x)			P/B (x)			FY24E yield (%)		EPS CAGR (%) over FY22-24E
		INRb	INR	INR	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	Div.	FCF	
Auto OEMs																
Bajaj Auto	Neutral	1,179	4,075	4,200	22.2	18.0	16.3	18.3	13.5	11.9	4.4	4.5	4.3	4.7	4.5	16.8
Hero MotoCorp	Buy	575	2,875	3,225	23.2	19.2	15.1	13.8	10.8	8.5	3.6	3.5	3.2	4.3	7.0	24.1
TVS Motor	Neutral	482	1,015	820	53.6	32.5	27.9	25.5	17.7	15.0	10.0	8.0	6.4	0.5	3.7	38.7
Eicher Motors	Buy	931	3,411	3,600	55.6	31.2	22.6	41.7	24.5	19.6	7.4	6.3	5.1	0.7	4.3	56.7
Maruti Suzuki	Buy	2,727	9,028	11,300	72.4	39.7	23.8	40.7	22.6	15.4	5.0	4.6	4.1	1.4	3.4	72.6
M&M	Buy	1,568	1,312	1,403	30.5	23.6	17.9	22.5	16.4	12.3	2.0	1.8	1.5	0.8	4.5	30.6
Tata Motors	Buy	1,787	467	520	-16.5	87.4	17.6	10.0	6.2	4.4	4.0	3.8	3.1	0.0	13.9	N.A.
Ashok Leyland	Buy	478	163	185	1,541.6	52.2	22.5	51.0	21.8	12.9	6.8	6.5	6.2	1.2	4.9	728.0
Escorts	Neutral	248	2,020	1,575	29.2	28.8	24.9	23.5	21.5	13.8	2.9	2.7	2.7	0.5	3.5	8.2
Auto Ancillaries																
Bharat Forge	Buy	350	752	860	34.7	28.4	22.6	20.2	17.5	14.7	5.3	4.7	4.0	0.8	4.4	23.8
Exide Industries	Buy	136	160	200	16.2	14.3	12.1	9.9	9.9	9.6	1.3	1.2	1.1	2.0	7.8	15.4
Amara Raja	Neutral	87	508	555	17.0	16.1	11.3	8.5	8.3	6.0	1.9	1.8	1.6	3.0	5.8	22.8
BOSCH	Neutral	520	17,650	16,150	42.8	39.0	29.3	34.6	26.6	20.7	4.9	4.5	4.0	0.8	1.5	20.9
Endurance Tech.	Buy	218	1,547	1,650	44.8	40.1	27.8	22.6	19.7	14.8	5.6	5.1	4.5	0.9	2.3	26.9
Motherson Sumi	Buy	397	126	165	68.9	32.9	18.0	13.2	10.6	7.8	2.8	2.6	2.4	2.4	7.2	95.4
Mahindra CIE	Buy	106	280	315	20.2	14.6	12.6	11.1	8.9	7.1	2.0	1.8	1.6	1.3	4.4	27.0
CEAT	Buy	57	1,412	1,460	72.0	41.1	14.9	10.9	9.3	6.0	1.7	1.7	1.5	0.8	9.1	119.8
Balkrishna Ind.	Neutral	392	2,028	2,300	26.5	26.5	20.6	18.4	16.9	12.9	5.7	4.9	4.2	1.5	2.6	13.3
MRF	Neutral	361	85,122	80,000	53.9	46.0	23.8	17.1	14.5	9.8	2.6	2.4	2.2	0.2	3.4	50.5
Apollo Tyres	Buy	145	253	310	22.5	15.6	11.0	8.0	5.9	4.6	1.2	1.2	1.1	1.8	11.0	42.8
Sona BLW	Neutral	302	527	645	90.6	72.9	47.3	58.9	44.6	30.1	15.4	13.3	10.9	0.5	1.1	38.4
Tube Investments	Buy	424	2,260	2,368	44.8	38.4	29.5	30.6	24.1	18.9	14.2	11.3	8.9	0.4	3.6	23.2
Motherson Sumi Wiring	Buy	251	80	95	54.8	41.2	31.5	34.0	25.4	20.1	22.6	17.3	12.9	1.6	2.8	31.9

NOTES

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Investment Rating	Expected return (over 12-month)
BUY	>=15%
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UNDER REVIEW	Rating may undergo a change
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