Automobiles

Weak retails led by seasonality and high base

…Retail sales to decline YoY/MoM, due to OBD-2 pre-buy in Mar'23 and festive mismatch

"If the industry grows at 5 per cent in FY24, we will grow at about 6 per cent or so. If the industry grows at 7 per cent, we should be growing at 8 per cent. Rural demand depends on good monsoon and we are trying to anticipate what the effects of El Nino might have on rural demand because irregular monsoon not only has an impact on agricultural income but also on food inflation."

Mr. Shashank Srivastava, Sr. Executive Officer (Marketing & Sales), MSIL

- Our interaction with leading channel partners indicate a decline in retails across different segments. This is largely attributed to pre-buying that took place in the previous month (due to OBD-2 norms) as well as ongoing weakness in rural areas. We have observed a decline in retail sales on a YoY basis, which can be attributed to a mismatch in festive demands. Further, both Navratri and the marriage season witnessed a decrease in demand in April'22 last year, contributing to a decline in sales. As a result, 2W/tractors sales are expected to decline 12-14%/ 10-12% YoY. Demand for PVs and MHCV were better off as they declined -by a mere 5-7% YoY despite a high base. Bookings across PVs have largely remained stable for MSIL, while we noted ~5-7% decline in bookings for M&M and TTMT. Bookings for the new model Fronx now stands at over 23k units. In CVs, fleet availability remains healthy, led by demand from construction-led activities, auto carriers, white goods, and FMCG. This has consequently resulted in a healthy fleet utilization level of ~80%. While retail sales have declined, we believe dispatches should grow during the month, driven by improved supply chain situation and channel filling before the marriage season next month (especially for 2Ws). Overall, in April'23, wholesale volumes for PV/CV/2W/tractor/3Ws are estimated to grow 12%/11%/4%/1%/21% YoY.
- **PVs**: Retail sales during the month are expected to decline 5-7% YoY, despite a high base of last year. Bookings across PVs have largely remained stable for MSIL, while we noted ~5-7% decline in bookings for M&M and TTMT. Order book for MSIL stands at ~412k units, which have been benefitted due to the incremental bookings from its new models Fronx and Jimny. Fronx currently has bookings of over 23k units and a waiting period of over 1 month. The inventory level for MSIL stands at 2-3 weeks, while it is at 3-4 weeks for TTMT and M&M. After the price cap imposed by the government on CNG, there has been an initial pickup in enquiries for CNG models. While we are yet to see the actual impact of the same in the coming months, we believe this will majorly benefit MSIL, which has a 20% CNG penetration (highest among peers), followed by Hyundai/TTMT with 9-11% each. MSIL's CNG mix in the total order book currently stands at 30-32% (v/s 28-30% in Sep'22 and 40-42% in June'22). We expect dispatches for MSIL/MM (including pickups)/TTMT PV to grow up 9%/up 30%/up 4% YoY.
- **2Ws:** Retail sales are expected to decline 12-14% YoY during the month on the high base of last year, due to festive mismatch (Navratri and marriage season in April'22). Rural demand continues to underperform with an expected decline of 20-22% YoY, while the urban is expected to decline 10-12% YoY. Currently, the inventory level across OEMs stands at 35-45 days (declining from 45-55 days till last month). Among the OEMs, HMCL has the highest inventory level. We observed that TVSL is offering discounts of up to INR2.1k for lower end segments. While HMCL has announced a price hike of 1.5-2% across key models from 10th of April, HMSI too has announced a price hike of INR1-3k/unit for its

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Activa range. We noted that the waiting period for Hunter has now reduced to <30 days (v/s 30-45 days till last month) and 2-3 months for Super Meteor 650 (v/s 3-4 months earlier). The current inventory level for RE stands at 20-25 days. We expect dispatches for HMCL/TVSL (including 3W)/RE to grow 10%/1%/13% YoY, while it is expected to decline by 2% for BAJUT (including 3W).

- **CVs:** Healthy demand for MHCV continues for the month of April. However, retail sales for the month are expected to decline 5-7% YoY. This can be attributed to pre-buying that occurred in the previous month due to a 3-5% price increase caused by BS6-II regulations. Fleet availability remains healthy, led by demand from construction-led activities, auto carriers, white goods, and FMCG. This has consequently resulted in a healthy fleet utilization level of ~80%. However, LCV retails are expected to decline 10-12% YoY as demand from segments such as e-commerce and agri has moderated. We observed that the inventory level for CVs has declined to 18-20 days (v/s 30-35 days at March end). AL has announced a price hike of ~4%, while TTMT had already announced a price hike in the previous month. We expect dispatches for TTMT CV/AL/VECV to grow ~6%/20%/22% YoY during the month.
- **Tractors:** Our channel checks suggest that Apr'23 retail sales are expected to decline 10-12% YoY, largely led by weak agri sentiments. This can be attributed to lower production of key crops such as wheat and weak monsoon projection for this year. While the wheat output has been adversely impacted due to unseasonal rains, the realizations have remained favorable as the yields are higher by 18-20% than the average. Demand from the non-agri segment has improved as sales declined by just 8-10% YoY (v/s 15-20% YoY decline in 2HFY23). Our interaction with the channel partners based in Telangana indicates that M&M has gained a market share in the region post the implementation of new norms in the tractors. While John Deere has been gaining traction over the last few years, the price gap between them and M&M has increased by INR30-40k/unit. During the month, M&M and Farmtrac have announced price hikes of INR10-15k/unit. The current inventory level stands at a stable 40-45 days (flat MoM).
- **Valuation and view:** We prefer CVs over other segments, on the back of strong demand along with a stable competitive environment. We prefer companies with: a) higher visibility in terms of demand recovery, b) a strong competitive positioning, c) encouraging margin drivers, and d) a strong balance sheet. **TTMT and AL** are our top OEM picks. Among auto component stocks, we prefer **MOTHERSO & BHFC**.

Snapshot of volumes for Mar-23

	YoY			MoM						
Company Sales	**Apr-23**	**Apr-22**	**YoY (%) chg**	**Mar-23**	**MoM (%) chg**	**FY24YTD**	**FY23YTD**	**(%) chg**	**FY24E**	**Gr. (%)**
Maruti Suzuki	**1,64,682**	**1,50,661**	**9.3**	**1,70,071**	**-3.2**	**1,64,682**	**1,50,661**	**9.3**	**21,73,331**	**19.0**
LCVs	4,479	4,266	5.0	4,024	11.3	4,479	4,266	5.0	38,006	0.0
Vans	11,712	11,154	5.0	11,995	-2.4	11,712	11,154	5.0	1,37,751	5.0
Mini Segment	17,994	17,137	5.0	11,582	55.4	17,994	17,137	5.0	2,27,575	-2.3
Compact (incl Dzire Tour)	64,729	61,647	5.0	74,997	-13.7	64,729	61,647	5.0	9,13,212	1.2
Mid Size - CIAZ	620	579	7.0	300	106.5	620	579	7.0	10,208	-25.0
UVs	41,212	37,465	10.0	37,054	11.2	41,212	37,465	10.0	5,76,330	48.4
Domestic	1,40,745	1,32,248	6.4	1,39,952	0.6	1,40,745	1,32,248	6.4	19,03,081	20.7
Export	23,937	18,413	30.0	30,119	-20.5	23,937	18,413	30.0	2,70,250	4.2
Mahindra & Mahindra	**1,01,501**	**86,579**	**17.2**	**1,01,105**	**0.4**	**1,01,501**	**86,579**	**17.2**	**12,56,557**	**13.6**
UV (incl. pick-ups)	54,504	41,926	30.0	58,925	-7.5	54,504	41,926	30.0	7,43,282	18.0
LCV & M&HCV	726	705	3.0	1,469	-50.6	726	705	3.0	10,426	3.9
Three-Wheelers	4,514	3,009	50.0	5,697	-20.8	4,514	3,009	50.0	79,002	35.0
Tractors	41,758	40,939	2.0	35,014	19.3	41,758	40,939	2.0	4,23,847	4.0
Tata Motors	**75,961**	**72,468**	**4.8**	**91,048**	**-16.6**	**75,961**	**72,468**	**4.8**	**9,54,626**	**10.4**
HCV's	15,029	12,524	20.0	25,218	-40.4	15,029	12,524	20.0	2,02,339	11.9
LCV's	17,765	18,314	-3.0	21,605	-17.8	17,765	18,314	-3.0	2,47,121	6.2
CV's	**32,793**	**30,838**	**6.3**	**46,823**	**-30.0**	**32,793**	**30,838**	**6.3**	**4,49,460**	**8.7**
Cars	13,743	13,607	1.0	14,463	-5.0	13,743	13,607	1.0	1,86,048	5.0
UV's	29,424	28,023	5.0	29,762	-1.1	29,424	28,023	5.0	4,18,413	15.0
Hero MotoCorp	**4,60,484**	**4,18,622**	**10.0**	**5,19,342**	**-11.3**	**4,60,484**	**4,18,622**	**10.0**	**57,40,172**	**7.7**
Bajaj Auto	**3,05,622**	**3,10,774**	**-1.7**	**2,91,567**	**4.8**	**3,05,622**	**3,10,774**	**-1.7**	**41,89,451**	**6.7**
Motorcycles	2,63,252	2,81,711	-6.6	2,47,002	6.6	2,63,252	2,81,711	-6.6	36,23,427	5.2
Two-Wheelers	2,63,252	2,81,711	-6.6	2,47,002	6.6	2,63,252	2,81,711	-6.6	36,23,427	5.2
Three-Wheelers	42,369	29,063	45.8	44,565	-4.9	42,369	29,063	45.8	5,66,024	16.7
Domestic	1,75,815	1,02,177	72.1	1,86,522	-5.7	1,75,815	1,02,177	72.1	23,77,426	12.9
Exports	1,29,807	2,08,597	-37.8	1,05,045	23.6	1,29,807	2,08,597	-37.8	18,12,026	-0.5
Ashok Leyland	**14,237**	**11,847**	**20.2**	**23,926**	**-40.5**	**14,237**	**11,847**	**20.2**	**2,14,891**	**11.8**
M&HCV	9,994	7,688	30.0	16,773	-40.4	9,994	7,688	30.0	1,41,244	13.8
LCV	4,242	4,159	2.0	7,153	-40.7	4,242	4,159	2	73,647	8.2
TVS Motor	**2,97,809**	**2,95,308**	**0.8**	**3,17,153**	**-6.1**	**2,97,809**	**2,95,308**	**0.8**	**41,45,770**	**12.6**
Motorcycles	1,36,246	1,39,027	-2.0	1,41,250	-3.5	1,36,246	1,39,027	-2.0	19,93,677	15.0
Scooters	1,14,474	1,02,209	12.0	1,28,817	-11.1	1,14,474	1,02,209	12.0	14,76,765	11.9
Mopeds	36,847	38,786	-5.0	37,493	-1.7	36,847	38,786	-5.0	4,83,263	5.2
Three-Wheelers	10,242	15,286	-33.0	9,593	6.8	10,242	15,286	-33.0	1,92,064	13.6
Domestic	2,17,276	1,81,881	19.5	2,42,115	-10.3	2,17,276	1,81,881	19.5	29,70,865	13.7
Exports	80,533	1,13,427	-29.0	75,037	7.3	80,533	1,13,427	-29.0	11,74,905	10.0
Eicher Motors										
Royal Enfield	**70,235**	**62,155**	**13.0**	**72,235**	**-2.8**	**70,235**	**62,155**	**13.0**	**9,43,398**	**13.0**
VECV	**6,712**	**5,525**	**21.5**	**11,906**	**-43.6**	**6,712**	**5,525**	**21.5**	**92,463**	**16.1**
Domestic LMD	3,060	2,550	20.0	5,625	-45.6	3,060	2,550	20.0	44,388	14.0
Domestic HD	1,558	1,246	25.0	2,943	-47.1	1,558	1,246	25.0	21,810	15.0
Domestic Buses	1,649	970	70.0	2,695	-38.8	1,649	970	70.0	18,656	25.0
VTI	120	109	10.1	229	-47.6	120	109	10.1	2,049	10.0
Domestic	**6,387**	**4,875**	**31.0**	**11,492**	**-44.4**	**6,387**	**4,875**	**31.0**	**86,903**	**16.4**
Exports	325	650	-50.0	414	-21.5	325	650	-50.0	5,560	12.7
Escorts Kubota	**7,807**	**8,325**	**-6.2**	**10,305**	**-24.2**	**7,807**	**8,325**	**-6.2**	**1,07,422**	**4.0**
Domestic	7,139	7,676	-7.0	9,601	-25.6	7,139	7,676	-7.0	99,378	4.3
Exports	668	649	3.0	704	-5.0	668	649	3	8,043	0
Construction Equipment	340	340	0.0	606	-43.9	340	340	0	5,313	15

Comparative valuations

Auto OEM's	Rating	Mcap (INR b)	CMP (INR)	TP (INR)	P/E (x) FY23E	P/E (x) FY24E	P/E (x) FY25E	EV/EBITDA (x) FY23E	EV/EBITDA (x) FY24E	EV/EBITDA (x) FY25E	PB (x) FY23E	PB (x) FY24E	PB (x) FY25E	FY25 Yield (%) Div	FY25 Yield (%) FCF	EPS CAGR (%) FY23E-25E
Bajaj Auto	Neutral	1,247	4,407	4,400	20.6	18.0	16.1	15.5	13.2	11.7	4.9	4.8	4.6	5.0	4.7	12.9
Hero MotoCorp	Buy	502	2,509	2,840	18.0	14.8	13.6	9.9	8.1	7.3	3.0	2.9	2.7	5.6	7.8	15.2
TVS Motor	Neutral	538	1,132	969	37.2	27.4	23.4	20.3	15.5	13.2	8.9	7.0	5.5	0.6	4.6	26.1
Eicher Motors	Buy	892	3,264	3,550	31.2	24.0	19.6	25.3	20.8	17.8	6.0	5.0	4.1	0.8	5.1	26.3
Maruti Suzuki	Buy	2,580	8,542	10,100	32.1	24.7	21.5	19.2	14.6	12.5	4.3	3.8	3.4	1.7	2.7	21.7
M&M	Buy	1,465	1,224	1,475	19.9	15.8	14.1	14.1	10.8	9.3	1.7	1.4	1.2	1.4	6.4	18.8
Tata Motors	Buy	1,844	482	400	-142.4	18.7	15.1	7.5	4.4	3.7	4.1	3.4	2.7	0.0	7.2	LTP
Ashok Leyland	Buy	417	142	175	33.8	18.8	15.1	15.0	11.0	9.1	5.7	5.2	4.3	1.4	8.1	49.8
Escorts	Neutral	238	1,939	1,765	32.8	27.7	22.0	27.2	15.5	13.3	2.6	2.7	2.4	0.5	3.7	22.1
Auto Ancillaries																
Bharat Forge	Buy	368	791	1,030	48.3	24.6	19.2	20.4	14.2	11.5	5.2	4.5	3.7	0.8	5.5	58.9
Exide Industries	Buy	165	194	220	17.4	15.0	12.3	10.1	8.8	7.0	1.5	1.4	1.3	1.6	7.7	18.7
Amara Raja	Neutral	102	597	615	13.2	12.4	11.7	7.2	6.4	5.7	2.0	1.8	1.6	2.5	4.3	6.6
BOSCH	Neutral	563	19,107	18,200	39.1	29.8	26.3	29.3	21.8	18.7	4.9	4.5	4.2	1.8	2.5	21.9
Endurance Tech	Buy	190	1,351	1,550	39.5	27.5	23.5	18.6	14.0	12.0	4.5	4.0	3.6	1.1	3.1	29.7
SAMIL	Buy	491	72	100	35.9	18.8	14.8	10.0	7.0	5.6	2.3	2.1	1.9	2.0	10.4	55.8
Mahindra CIE	Buy	154	407	450	22.5	17.4	14.9	13.4	10.1	8.5	3.0	2.7	2.3	1.1	5.3	23.0
CEAT	Buy	57	1,403	1,800	32.4	11.9	10.2	8.4	5.2	4.5	1.7	1.5	1.3	0.9	11.1	78.6
Balkrishna Ind	Neutral	403	2,083	2,030	39.4	26.0	22.6	21.0	15.5	13.5	5.3	4.7	4.2	1.7	3.1	32.1
MRF	Sell	371	87,396	72,000	54.4	28.5	21.8	16.9	11.8	9.7	2.5	2.3	2.1	0.2	2.6	57.9
Apollo Tyres	Buy	217	341	400	19.2	13.3	11.1	7.1	5.5	4.6	1.6	1.4	1.3	1.3	11.4	31.8
Sona BLW	Neutral	275	471	435	71.5	54.0	43.6	35.3	26.7	22.0	12.1	10.4	9.0	0.8	1.4	28.1
Tube Investments	Buy	474	2,529	3,263	38.0	31.2	25.5	24.5	20.3	16.5	12.4	9.7	7.7	0.4	4.1	22.0
MSUMI	Buy	233	53	68	47.8	30.6	27.1	27.1	18.0	15.9	17.5	12.6	10.0	2.0	3.4	32.7
CRAFTSMAN	Buy	66	3,137	3,925	30.0	17.6	14.4	10.8	7.3	6.1	4.4	3.5	2.8	0.4	7.9	44.4

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BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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