

# Automobiles

## Demand yet to pick up; dealers optimistic for festive revival

### Onset of festivities fails to spark a resurgence in demand as yet

“We expect to see some green shoots with festivals coming from October onwards. The market is not bad. Monsoon is very good this year, so harvesting is going to be good too. Money will come in for circulation.”

Mr. Partho Banerjee  
Senior Executive Officer,  
Marketing and Sales,  
MSIL

- Demand trends in Sep'24 remained weak across segments despite festivals such as the Ganesh festival and Onam. The demand weakness was further accentuated by the inauspicious Shraddh period in September. As a result, retail sales are likely to decline on a YoY basis across categories. The 2W retails are expected to dip 3-5% YoY in Sep'24. Further, 2W dealers have seen a flat to marginal decline YoY in retail sales in the 10-day Ganesh festival in Maharashtra. However, in anticipation of a good month-long festival season starting with the Navratras, dealers have seen an inventory buildup by OEMs. PV retails continue to remain weak and are likely to decline 8-10% YoY. CV retails are projected to decline 10-12% YoY due to weak underlying demand, though fleet utilization has remained steady. Tractor retails are also expected to drop 10-12% YoY. In Sep'24, dispatches are anticipated to grow YoY for 2Ws (+10%), tractors (+1%), 3Ws (+3%), and PVs (+4%), while dispatches are likely to decrease for CVs (-5%).
- 2Ws:** Retail sales are expected to decline 3-5% YoY in Sep'24 primarily due to the inauspicious Shraddh period falling entirely in this month (vs. being split between Sep and Oct last year). Inquiries and bookings currently remain slow. To counter this, OEMs like HMCL have come up with a unique offer: whoever books a HMCL 2W with a token amount of INR1,100 between 18<sup>th</sup> Sep and 2<sup>nd</sup> Oct'24 (Shraddh period), would get a discount of INR1,000 during the delivery of the new vehicle in the Navratras. Despite this offer, bookings currently remain weak. In the 10-day Ganesh festival in Maharashtra, 2W dealers (that we interacted with) have seen a flat to marginal decline YoY across major regions, barring a few. However, retails on the day of Vishwakarma Pooja saw a strong double-digit growth in Bihar. However, demand for the entry-level 100cc motorcycle segment is not showing any major improvement. For HMCL, dealers have started receiving adequate supply of its Xtreme 125R. Bookings and inquiries for BJAUT's Freedom 125cc motorcycle are largely stable, with some decline witnessed in a few regions where the motorcycle was initially launched. The on-road price of Freedom 125cc base variant with drum brakes is around INR109.2k (vs. INR90k/ INR91k for Splendor Plus/Passion Plus). For TVS, the newer version of Jupiter 110cc is well received by customers as it offers a 10% higher mileage and much better features for a marginal increase in pricing vis-à-vis the outgoing model. There has been a price hike of INR500-700 in TVSL's Raider and Apache. There are no discounts offered by OEMs to customers in Sep'24. In anticipation of a good festival season starting next month, inventory levels have risen with HMCL at 75-80 days, TVSL/HMSI at 50-55 days, BJAUT at 60 days, and RE at 30 days. We expect dispatches for BJAUT/HMCL/TVSL to grow ~14%/11%/8% YoY, while it is anticipated to decline ~2% YoY for RE.
- PVs:** Retails are expected to decline 8-10% YoY. Conversion to bookings from inquiries is taking longer than expected across regions. As highlighted in our last channel check note, discounts have moderated by 5-10% MoM in Sep'24 for MSIL depending upon variants. TTMT announced price cuts across its range of vehicles except Punch. Price reductions have been in the range of INR10-80k /

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INR15-30k/INR15-60k/ INR50k-180k/INR50-160k for Nexon/Tigor/Tiago/Safari/Harrier. Despite these reductions, there are additional discounts of INR15-25k on the models, including Punch. Test drive cars for TTMT's ICE variant of Curvv have not yet reached the dealerships, leading to postponement of purchases by customers. MSIL is seeing an improvement in its Grand Vitara strong hybrid retails in UP mainly due to a reduction in road tax announcements by the government. M&M's Thar Roxx test drives have commenced, with bookings open from 3<sup>rd</sup> Oct'24. Strong initial response to Thar Roxx has led to a discount of INR150k on the 3-door Thar. Inventory levels for MSIL stand at around 55-60 days, TTMT at 60 days, while the same for MM stand at 40-45 days. We expect dispatches for MSIL (including LCVs)/ M&M/TTMT to grow 3% /3.5%/7% YoY.

- **CVs:** Both MHCV and LCV retails are estimated to decline 10-12% YoY due to the seasonal effects of the monsoon. We are not seeing any major improvement in tendering processes by the government leading to postponement of purchases by fleet operators, especially in tippers. Fleet utilization levels remain steady at 65-70%. This was driven by better off-take in consumer-based sectors such as agri, auto, and FMCG. Dispatches for AL/TTMT are likely to decline 5.0%/13.5% YoY.
- **Tractors:** Retails are likely to dip 15-20% YoY, as demand sentiments have not turned positive. In areas of UP where tractors are used for commercial purposes, retails are likely to decline 25-30% YoY. Retails during the Ganesh festival in Maharashtra have largely remained flat YoY. Rainfall has been satisfactory across regions. While regions like eastern UP were having deficit rainfall, it is now being compensated by extremely heavy rains in the last 4-5 days. Dealers believe that the positive effect of normal rainfall is expected to be seen in the next 2-3 months. There are discounts of INR10-15k/tractor for ESC, while it is INR4-5k for M&M (in the form of scratch card offers). The Tiger range of tractors launched by Sonalika is well accepted in the markets. Current inventory levels are around eight weeks, which we consider normal as we approach the festive season. We expect dispatches for MM/Escorts to remain flat YoY.
- **Valuation and view:** While we anticipate the 2W segment to continue outperforming other segments even in FY25, this appears to be fully priced-in after the recent strong rally in 2W stocks. MSIL is our top pick among auto OEMs as it continues to be a play on rural recovery with attractive valuation. We also like MM, given its healthy demand momentum in both SUVs and tractors for FY25.

## Snapshot of estimated volumes for Sep-24

Company Sales	YoY			MoM							Residual	Residual	FY25 YTD
	Sep-24	Sep-23	YoY (%) chg	Aug-24	MoM (%) chg	FY25YTD	FY24YTD	(%) chg	FY25E	Gr. (%)	Growth (%)	Monthly Run rate	Monthly Run rate
<b>Maruti Suzuki</b>	<b>1,87,333</b>	<b>1,81,343</b>	<b>3.3</b>	<b>1,81,782</b>	<b>3.1</b>	<b>10,66,024</b>	<b>10,50,085</b>	<b>1.5</b>	<b>21,99,154</b>	<b>3.0</b>	<b>4.4</b>	<b>1,88,855</b>	<b>1,77,671</b>
Domestic	1,63,246	1,58,832	2.8	1,55,779	4.8	9,21,389	9,17,543	0.4	18,90,912	20.7	49.4	1,61,587	1,53,565
Export	24,087	22,511	7.0	26,003	-7.4	1,44,635	1,32,542	9.1	3,08,242	8.9	8.7	27,268	24,106
<b>Mahindra &amp; Mahindra</b>	<b>1,23,767</b>	<b>1,18,814</b>	<b>4.2</b>	<b>98,672</b>	<b>25.4</b>	<b>6,49,109</b>	<b>6,04,066</b>	<b>7.5</b>	<b>13,75,458</b>	<b>14.5</b>	<b>21.6</b>	<b>1,21,058</b>	<b>1,08,185</b>
UV (incl. pick-ups)	68,900	66,544	3.5	63,955	7.7	3,77,264	3,49,824	7.8	8,57,112	18.0	27.4	79,975	62,877
LCV & M&HCV	3,700	1,139	224.8	3,474	6.5	19,511	9,946	96.2	28,805	50.1	0.5	1,549	3,252
Three-Wheelers	7,525	7,921	-5.0	9,326	-19.3	38,099	39,226	-2.9	88,451	14.0	31.3	8,392	6,350
Tractors	43,642	43,210	1.0	21,917	99.1	2,14,235	2,05,070	4.5	4,01,089	6.0	7.8	31,142	35,706
<b>Tata Motors</b>	<b>82,432</b>	<b>84,381</b>	<b>-2.3</b>	<b>71,693</b>	<b>15.0</b>	<b>4,56,012</b>	<b>4,69,269</b>	<b>-2.8</b>	<b>9,72,695</b>	<b>0.3</b>	<b>3.3</b>	<b>86,114</b>	<b>76,002</b>
HCV's	16,895	19,199	-12.0	12,708	32.9	83,463	83,622	-0.2	1,88,426	4.0	7.7	17,494	13,911
LCV's	16,885	19,865	-15.0	14,499	16.5	95,775	1,06,258	-9.9	2,13,793	-0.4	8.8	19,670	15,963
<b>CV's</b>	<b>33,780</b>	<b>39,064</b>	<b>-13.5</b>	<b>27,207</b>	<b>24.2</b>	<b>1,79,238</b>	<b>1,89,880</b>	<b>-5.6</b>	<b>4,02,219</b>	<b>1.6</b>	<b>8.3</b>	<b>37,163</b>	<b>29,873</b>
PVs	48,652	45,317	7.4	44,486	9.4	2,76,774	2,79,389	-0.9	5,70,476	6.0	13.5	48,950	46,129
<b>Hero MotoCorp</b>	<b>5,95,514</b>	<b>5,36,499</b>	<b>11.0</b>	<b>5,12,360</b>	<b>16.2</b>	<b>30,13,304</b>	<b>27,69,100</b>	<b>8.8</b>	<b>60,58,320</b>	<b>7.8</b>	<b>6.8</b>	<b>5,07,503</b>	<b>5,02,217</b>
<b>Bajaj Auto</b>	<b>4,40,781</b>	<b>3,92,558</b>	<b>12.3</b>	<b>3,97,804</b>	<b>10.8</b>	<b>22,94,810</b>	<b>20,81,360</b>	<b>10.3</b>	<b>46,08,035</b>	<b>9.1</b>	<b>8.1</b>	<b>3,85,537</b>	<b>3,82,468</b>
Two-Wheelers	3,73,222	3,27,712	13.9	3,35,178	11.4	19,56,858	17,70,913	10.5	39,22,724	9.0	7.5	3,27,644	3,26,143
Three-Wheelers	67,559	64,846	4.2	62,626	7.9	3,37,952	3,10,447	8.9	6,85,311	10.0	11.1	57,893	56,325
Domestic	2,94,709	2,53,193	16.4	2,53,827	16.1	14,50,154	12,79,112	13.4	28,22,977	9.2	5.1	2,28,804	2,41,692
Exports	1,46,073	1,39,365	4.8	1,43,977	1.5	8,44,657	8,02,248	5.3	17,85,058	9.1	12.8	1,56,733	1,40,776
<b>Ashok Leyland</b>	<b>18,245</b>	<b>19,202</b>	<b>-5.0</b>	<b>14,463</b>	<b>26.1</b>	<b>90,529</b>	<b>91,175</b>	<b>-0.7</b>	<b>2,08,799</b>	<b>7.3</b>	<b>14.3</b>	<b>19,712</b>	<b>15,088</b>
M&HCV	11,859	12,752	-7.0	8,663	36.9	56,847	58,251	-2.4	1,34,526	7.7	16.6	12,947	9,475
LCV	6,386	6,450	-1.0	5,800	10.1	33,682	32,924	2	74,273	6.4	10.1	6,765	5,614
<b>TVS Motor</b>	<b>4,35,013</b>	<b>4,02,553</b>	<b>8.1</b>	<b>3,91,588</b>	<b>11.1</b>	<b>22,67,916</b>	<b>20,27,622</b>	<b>11.9</b>	<b>46,35,552</b>	<b>10.6</b>	<b>9.4</b>	<b>3,94,606</b>	<b>3,77,986</b>
Motorcycles	1,97,624	1,86,438	6.0	1,70,486	15.9	10,43,622	9,56,248	9.1	21,64,428	8.6	8.1	1,86,801	1,73,937
Scooters	1,75,744	1,55,526	13.0	1,63,629	7.4	8,97,785	7,69,985	16.6	17,85,238	13.9	11.3	1,47,909	1,49,631
Mopeds	45,891	44,991	2.0	44,726	2.6	2,52,719	2,23,621	13.0	5,19,758	7.3	2.3	44,506	42,120
Three-Wheelers	15,754	15,598	1.0	12,747	23.6	73,790	77,768	-5.1	1,66,129	13.7	35.0	15,390	12,298
Domestic	3,28,702	3,02,259	8.7	2,91,612	12.7	17,10,492	15,23,186	12.3	34,99,853	10.1	8.1	2,98,227	2,85,082
Exports	1,06,312	1,00,294	6.0	99,976	6.3	5,57,425	5,04,436	10.5	11,35,699	12.1	13.7	96,379	92,904
<b>Eicher Motors</b>													
<b>Royal Enfield</b>	<b>77,008</b>	<b>78,580</b>	<b>-2.0</b>	<b>73,629</b>	<b>4.6</b>	<b>4,43,923</b>	<b>4,56,986</b>	<b>-2.9</b>	<b>9,13,511</b>	<b>0.1</b>	<b>3.0</b>	<b>78,265</b>	<b>73,987</b>
<b>VECV</b>	<b>7,213</b>	<b>7,198</b>	<b>0.2</b>	<b>6,543</b>	<b>10.2</b>	<b>40,080</b>	<b>39,122</b>	<b>2.4</b>	<b>92,288</b>	<b>7.9</b>	<b>12.4</b>	<b>8,701</b>	<b>6,680</b>
<b>Escorts Kubota</b>	<b>10,996</b>	<b>10,861</b>	<b>1.2</b>	<b>5,614</b>	<b>95.9</b>	<b>48,099</b>	<b>48,606</b>	<b>-1.0</b>	<b>99,692</b>	<b>4.0</b>	<b>9.2</b>	<b>8,599</b>	<b>8,017</b>

Source: Company, MOFSL

## Comparative valuations

Auto OEM's	Rating	CMP (INR)	P/E (x)		EV/EBITDA (x)		PB (x)		FY25E Yield (%)		EPS CAGR (%)
			FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	Div	FCF	FY24-26E
Bajaj Auto	Neutral	12,683	42.6	32.8	32.1	26.0	12.7	11.8	1.6	1.8	18.4
Hero MotoCorp	Buy	5,954	25.7	21.5	17.5	15.0	6.2	5.7	2.9	3.3	16.4
TVS Motor	Neutral	2,946	51.6	42.1	32.1	27.0	14.0	11.0	0.3	1.2	26.4
Eicher Motors	Sell	5,060	32.5	29.3	29.3	26.3	6.7	5.8	1.1	4.3	8.7
Maruti Suzuki	Buy	13,497	28.1	24.1	18.6	15.8	4.5	3.9	1.1	1.6	14.8
M&M	Buy	3,182	29.9	25.5	22.2	19.0	3.1	2.6	0.7	2.8	18.5
Tata Motors	Neutral	992	16.6	14.2	6.1	4.9	3.5	2.8	0.4	4.1	9.2
Ashok Leyland	Buy	240	20.3	16.4	13.0	10.5	6.7	5.5	2.5	4.0	26.3
Escorts	Neutral	4,327	44.5	34.9	31.1	27.8	5.2	4.7	0.4	2.7	14.3
<b>Auto Ancillaries</b>											
Bharat Forge	Neutral	1,521	43.7	32.5	23.6	18.9	8.7	7.3	0.8	0.6	54.0
Exide Industries	Neutral	497	35.2	27.6	20.4	16.6	3.0	2.8	0.6	1.4	20.7
Amara Raja	Neutral	1,392	26.3	22.3	14.7	12.6	3.4	3.0	0.7	3.9	12.2
BOSCH	Neutral	37,976	51.6	43.6	46.8	39.2	8.5	7.7	0.9	1.0	18.5
Endurance Tech	Buy	2,356	37.9	29.0	21.1	17.5	5.8	5.0	0.5	1.6	31.1
SAMIL	Buy	215	33.5	26.1	13.3	11.3	5.0	4.4	0.9	2.3	49.1
CIE Automotive	Buy	544	22.9	18.8	13.8	11.2	3.1	2.8	0.9	2.2	17.1
CEAT	Buy	3,247	21.2	16.9	9.6	8.4	2.9	2.5	0.9	2.4	6.6
Balkrishna Ind	Neutral	3,044	36.2	27.9	22.1	17.5	5.9	5.1	0.7	2.6	19.4
MRF	Sell	1,40,976	29.7	25.4	13.2	11.6	3.2	2.9	0.4	2.9	5.5
Apollo Tyres	Buy	547	20.6	16.5	9.2	8.0	1.8	1.7	1.2	6.0	7.3
Sona BLW	Neutral	736	69.3	55.3	37.0	30.1	13.4	11.6	0.5	0.9	22.0
Tube Investments	Buy	4,145	68.4	55.7	33.2	27.2	12.9	10.6	0.1	1.3	47.1
MSUMI	Buy	72	43.5	34.2	27.0	21.6	15.6	12.5	1.4	0.8	21.1
CRAFTSMAN	Buy	6,405	45.1	29.3	14.2	11.0	3.9	3.4	0.3	0.3	23.1
Happy Forgings	Buy	1,177	34.6	26.7	22.7	18.3	6.0	5.1	0.5	1.3	32.0

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