

Automobiles

2W OEMs outperform in anticipation of festive revival

In 2Ws, BJAUT/TVSL/HMCL/RE wholesales exceeded expectations as OEMs anticipate a strong festival season starting Oct'24. While all the 2W OEMs have pushed stock with dealers in anticipation of a demand revival in festive, it has to be highlighted that the festive start has been much weaker than expected and one needs to monitor the festive momentum closely. In PVs, MSIL's dispatches met expectations, while MM's dispatches exceeded them, and those of TTMT fell short. In CVs, both TTMT/AL wholesales fell short of estimates, while VECV wholesales surprised. TTMT management highlighted that the demand for CVs is expected to pick up from 3QFY25, led by ILCVs and buses, followed by MHCVs. In tractors, MM sales were in line, while ESC surprised. Strong monsoons and adequate reservoir levels are likely to support upcoming rabi crops, boosting tractor demand. We expect 2Ws to outperform other segments in FY25.

- **2Ws (above est.):** Wholesale dispatches for BJAUT/TVSL/HMCL/RE (above estimates) grew 22%/22%/19%/11% YoY to 400.5k/471.8k/637k/87k units. Export dispatches for BJAUT/TVSL grew 13%/11% YoY. HMCL indicated that a positive sentiment is prevalent in the industry as the festive season approaches. Benefiting from favorable monsoon conditions, the company has geared up with a host of festive offers, in line with previous festive periods, across its portfolio. While all the 2W OEMs have pushed stock with dealers in anticipation of a demand revival in festive, it has to be highlighted that the festive start has been much weaker than earlier expected and one needs to monitor the festive momentum closely. Any disappointment here may lead to much lower dispatches in subsequent months.
- **PVs (in line with estimates):** MSIL's volumes for Aug'24 were 184.7k units (grew 2% YoY), in line with estimates. For MSIL, domestic volumes declined 1% YoY to 157k units (in line), but exports grew 23% YoY. MM UV volumes (including Pickup) increased 14.5% YoY at 74.5k units due to strong growth of 24% YoY for UVs. TTMT PV volumes declined 9% YoY to 41.3k units (below estimates). According to the management, the PV industry experienced over 5% YoY decline in retails (Vahan registrations) in Q2FY25, driven by slow consumer demand and seasonal factors. In contrast, industry offtake was significantly higher than registrations, leading to a continued buildup of channel stock. In addition, the sales of electric vehicles in the personal segment were adversely affected by the lapse of registrations and road tax waivers in key states. Fleet EV sales continued to be impacted by the lapse of FAME II and exclusion of the fleet segment from the PM-eDRIVE scheme. TTMT experienced a 6% decline in 2QFY25 as it readjusted wholesales to lower-than-expected retails to keep channel inventory under control.
- **CVs (below est.):** MHCVs/LCVs declined 14%/13% YoY overall. CV sales for TTMT declined 23% YoY (MHCVs down 23% YoY and LCVs down 23.5% YoY) in Sep'24 to 30k units. According to the management, the slowdown in infrastructure project execution, reduction in mining activities, and an overall drop in fleet utilization due to heavy rains contributed to a 25% decline YoY in the HCV segment in Q2 FY25 and an 11% decline in the ILMCV segment. The resilient demand in the passenger commercial vehicles business led to a 3% increase in Q2FY25 over Q2FY24. With the easing of rains, increased infrastructure

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spending, and the onset of the festive season boosting consumption, demand is expected to gradually pick up in Q3FY25, led by ILMCV and buses and followed by M&HCV and SCVPU. AL wholesales decreased 10% YoY to 17.2k units (below est.). VECV's CV sales grew 6% YoY to 7.6k units (above estimates).

- **Tractors (in line):** MM tractor volumes grew 2% YoY to 44.3k units. According to MM, monsoon rainfall has increased 7.5% over LPA, which has contributed to higher kharif sowing for all crops except cotton. Reservoir levels have recovered well and are now 13% higher than LPA, which bodes well for bumper rabi crops. Rural sentiment remains positive on account of good kharif crops and potential for strong rabi crops. With positive terms of trade for farmers and upcoming festivals, robust demand is expected for tractors going forward. For Escorts, tractor sales grew 2.5% YoY at 12.4k units (ESC wholesale numbers now include Kubota agricultural machinery numbers).

Surprise (Variance %)	In line (Variance %)	Disappointment (Variance %)
MM UVs (+8%)	MSIL (-1%)	AL (-5.5%)
HMCL (7%)	MM Tractors (+1%)	TTMT CVs (-11%)
BJAUT (+6.5%)		TTMT PVs (-15%)
TVSL (+11%)		
EIM VECV (+5.5%)		
ESC (+13%)		
EIM RE (+13%)		

- **Valuation and view:** While we expect the 2W segment to continue to outperform other segments in FY25, this seems 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 healthy demand momentum in both SUVs and tractors for FY25.

Snapshot of volumes for Jul'24 (incl exports) *

Company Sales	YoY			MoM		FY25YTD	FY24YTD	(% chg)	FY25E	Gr (%)
	Sep'24	Sep'23	YoY (%) chg	Aug'24	MoM (%) chg					
2W	15,96,309	13,29,746	20.0	13,00,008	22.8	77,39,517	69,46,853	11.4	1,53,03,114	9.4
Cars	1,23,586	1,23,173	0.3	1,20,151	2.9	7,22,277	7,48,023	-3.4	14,96,445	22.6
UVs + MPVs	1,73,876	1,66,257	4.6	1,69,024	2.9	9,78,477	9,14,299	7.0	20,15,448	6.5
PVs	2,97,462	2,89,430	2.8	2,89,175	2.9	17,00,754	16,62,322	2.3	35,11,894	12.8
3Ws	89,789	88,365	1.6	84,699	6.0	4,48,792	4,27,441	5.0	9,33,102	10.2
M&HCVs	33,525	39,149	-14.4	27,914	20.1	1,77,948	1,80,995	-1.7	4,04,806	3.4
LCVs	27,722	31,227	-11.2	26,268	5.5	1,63,051	1,66,103	-1.8	3,53,643	4.8
CVs	61,247	70,376	-13.0	54,182	13.0	3,40,999	3,47,098	-1.8	7,58,449	4.0
Tractors	56,636	55,291	2.4	28,563	98.3	2,71,214	2,63,564	2.9	5,01,589	5.8

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

Snapshot of volumes for Sep'24 (in '000 units)

Company Sales	YoY			MoM		FY25YTD		FY24YTD (%) chg		FY25E Gr. (%)		Residual Growth (%)	Residual FY25 YTD		Var Sep'24
	Sep'24	Sep'23	YoY (%) chg	Aug'24	MoM (%) chg					Monthly Run rate	Monthly Run rate				
Maruti Suzuki	184.7	181.3	1.9	181.8	1.6	1,063.4	1,050.1	1.3	2,193.3	2.7	4.1	188.3	177.2	187.3	
LCVs	3.1	2.3	35.1	2.5	24.2	16.4	15.5	6.0	33.8	0.0	-5.1	2.9	2.7	2.6	
Vans	11.9	11.1	6.8	11.0	8.4	68.6	67.7	1.3	139.9	2.0	2.7	11.9	11.4	11.1	
Mini Segment	10.4	10.4	0.1	10.6	-2.7	61.8	72.6	-14.8	132.1	-7.0	1.2	11.7	10.3	10.4	
Compact (incl Dzire Tour)	69.4	74.3	-6.5	68.3	1.7	420.5	447.9	-6.1	875.3	-1.3	3.6	75.8	70.1	72.0	
Mid Size - CIAZ	0.7	1.5	-55.6	0.7	-6.4	4.1	7.4	-44.3	7.0	-32.0	-0.3	0.5	0.7	0.7	
UVs	61.5	59.3	3.8	62.7	-1.8	343.7	306.5	12.1	702.4	9.4	6.8	59.8	57.3	66.4	
Domestic	157.0	158.8	-1.2	155.8	0.8	915.1	917.5	-0.3	1,890.5	20.7	50.3	162.6	152.5	163.2	
Export	27.7	22.5	23.2	26.0	6.6	148.3	132.5	11.9	302.8	7.0	2.7	25.8	24.7	24.1	
Mahindra & Mahindra	132.1	118.8	11.2	98.7	33.9	657.4	604.1	8.8	1,297.5	8.2	7.6	106.7	109.6	123.8	
UV (incl. pick-ups)	74.5	65.1	14.5	64.0	16.5	382.9	348.3	9.9	781.8	8.0	6.2	66.5	63.8	68.9	
LCV & M&HCV	3.3	2.6	25.1	3.5	-5.8	19.1	11.4	67.0	33.8	76.2	89.6	2.5	3.2		
Verito	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Three-Wheelers	10.0	7.9	26.8	9.3	7.7	40.6	39.2	3.5	83.8	8.0	12.6	7.2	6.8		
Tractors	44.3	43.2	2.4	21.9	101.9	214.8	205.1	4.8	398.1	5.2	5.7	30.5	35.8	43.6	
Tata Motors	71.3	84.4	-15.4	73.1	-2.5	446.4	469.3	-4.9	972.7	0.3	5.2	87.7	74.4	82.4	
HCVs	14.8	19.2	-22.7	12.7	16.8	81.4	83.6	-2.6	188.4	4.0	9.8	17.8	13.6		
LCVs	15.2	19.9	-23.5	14.5	4.8	94.1	106.3	-11.5	213.8	-0.4	10.4	20.0	15.7		
CVs	30.0	39.1	-23.1	27.2	10.4	175.5	189.9	-7.6	402.2	1.6	10.1	37.8	29.2	33.8	
PVs	41.3	45.3	-8.8	45.9	-10.1	270.9	279.4	-3.0	570.5	6.0	15.7	49.9	45.1	48.7	
Hero MotoCorp	637.1	536.5	18.7	512.4	24.3	3,054.8	2,769.1	10.3	6,083.4	8.2	6.2	504.8	509.1	595.5	
Bajaj Auto	469.5	392.6	19.6	397.8	18.0	2,323.6	2,081.4	11.6	4,512.7	6.9	2.3	364.9	387.3	440.8	
Motorcycles	400.5	327.7	22.2	335.2	19.5	1,984.1	1,770.9	12.0	3,829.5	6.4	1.0	307.6	330.7		
Two-Wheelers	400.5	327.7	22.2	335.2	19.5	1,984.1	1,770.9	12.0	3,829.5	6.4	1.0	307.6	330.7		
Three-Wheelers	69.0	64.8	6.5	62.6	10.2	339.4	310.4	9.3	683.2	9.7	10.0	57.3	56.6		
Domestic	311.9	253.2	23.2	253.8	22.9	1,467.3	1,279.1	14.7	2,750.0	6.4	-1.8	213.8	244.6		
Exports	157.6	139.4	13.1	144.0	9.5	856.2	802.2	6.7	1,762.7	7.7	8.7	151.1	142.7		
Ashok Leyland	17.2	19.2	-10.3	14.5	19.2	89.5	91.2	-1.8	200.5	3.0	7.2	18.5	14.9	18.2	
M&HCV	11.1	12.8	-13.1	8.7	27.9	56.1	58.3	-3.8	128.3	2.7	8.3	12.0	9.3	11.9	
LCV	6.2	6.5	-4.6	5.8	6.1	33.5	32.9	1.6	72.3	3.5	5.3	6.5	5.6	6.4	
TVS Motor	482.5	402.6	19.9	391.6	23.2	2,315.4	2,027.6	14.2	4,642.8	10.8	7.6	387.9	385.9	435.0	
Motorcycles	229.3	186.4	23.0	170.5	34.5	1,075.3	956.2	12.4	2,164.4	8.6	5.0	181.5	179.2		
Scooters	186.8	155.5	20.1	163.6	14.1	908.8	770.0	18.0	1,785.2	13.9	9.9	146.1	151.5		
Mopeds	55.8	45.0	24.0	44.7	24.7	262.6	223.6	17.4	527.0	8.8	1.3	44.1	43.8		
Three-Wheelers	10.7	15.6	-31.4	12.7	-16.0	68.7	77.8	-11.6	166.1	13.7	42.4	16.2	11.5		
Domestic	371.5	302.3	22.9	291.6	27.4	1,753.3	1,523.2	15.1	3,507.1	10.4	6.0	292.3	292.2		
Exports	111.0	100.3	10.7	100.0	11.0	562.1	504.4	11.4	1,135.7	12.1	12.8	95.6	93.7		
Royal Enfield	87.0	78.6	10.7	73.6	18.1	453.9	457.0	-0.7	913.5	0.1	0.8	76.6	75.6	77.0	
VECV	7.6	7.2	5.7	6.5	16.3	40.5	39.1	3.5	88.1	3.0	2.6	7.9	6.7	7.2	
Domestic LMD	3.5	3.8	-7.1	3.2	9.4	18.1	18.8	-3.5	40.6	0.0	3.0	3.7	3.0		
Domestic HD	2.0	1.9	10.1	1.6	26.8	9.8	9.4	4.4	22.0	2.0	0.1	2.0	1.6		
Domestic Buses	1.3	1.0	20.7	1.2	7.1	9.1	8.0	13.6	18.8	9.0	5.1	1.6	1.5		
VTI	0.3	0.2	23.2	0.3	10.4	1.1	1.2	-3.4	2.5	1.0	5.0	0.2	0.2		
Domestic	7.1	6.9	2.7	6.3	13.5	38.2	37.4	2.1	83.8	2.5	2.7	7.6	6.4		
Exports	0.5	0.3	90.0	0.3	86.3	2.3	1.8	31.6	4.3	15.0	0.0	0.3	0.4		
Escorts Kubota	12.4	12.1	2.5	6.6	86.3	56.4	58.5	-3.6	103.5	8.0	26.2	7.9	9.4	11.0	
Domestic	12.0	11.3	5.7	6.2	92.2	54.2	55.6	-2.5	98.6	9.3	28.3	7.4	9.0		
Exports	0.4	0.7	-47.1	0.4	-3.4	2.2	2.9	-24.7	4.9	-12.8	0.0	0.5	0.4		
Construction Equipment	0.6	0.5	22.9	0.4	76.6	2.8	2.9	-3.9	7.2	10.0	20.8	0.7	0.5		

Comparative valuations

	Rating	CMP (INR)	P/E (x)		EV/EBITDA (x)		PB (x)		FY25 Yield (%)		EPS CAGR (%)
			FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	Div	FCF	FY24-26E
Auto OEMs											
Bajaj Auto	Neutral	12,162	38.5	29.4	28.7	23.0	12.0	10.9	1.6	2.0	22.3
Hero MotoCorp	Buy	5,750	24.3	20.5	16.5	14.2	6.0	5.5	3.0	3.5	17.0
TVS Motor	Neutral	2,837	48.3	40.2	30.2	25.9	13.4	10.5	0.3	1.3	26.8
Eicher Motors	Sell	4,971	31.0	28.3	28.8	26.2	6.5	5.7	1.1	4.2	9.5
Maruti Suzuki	Buy	13,167	27.1	23.6	17.8	15.3	4.3	3.8	1.1	1.6	14.5
M&M	Buy	3,166	30.8	25.8	22.7	19.3	3.1	2.6	0.7	2.7	17.6
Tata Motors	Neutral	965	16.1	13.8	6.0	4.7	3.4	2.7	0.4	4.3	9.2
Ashok Leyland	Buy	238	21.8	18.0	13.9	11.5	6.8	5.8	2.5	3.5	20.4
Escorts	Neutral	4,207	41.9	32.9	28.9	25.8	5.1	4.5	0.5	2.9	16.1
Auto Ancillaries											
Bharat Forge	Neutral	1,529	43.9	32.7	23.7	19.0	8.7	7.3	0.8	0.6	54.0
Exide Industries	Neutral	512	36.4	28.4	21.1	17.2	3.1	2.9	0.6	1.4	20.6
Amara Raja	Neutral	1,411	25.9	22.9	14.7	12.8	3.4	3.0	0.7	4.0	11.7
BOSCH	Neutral	37,856	51.7	43.2	47.0	38.8	8.5	7.7	1.0	1.0	18.9
Endurance Tech	Buy	2,396	38.7	29.9	21.4	18.0	5.9	5.1	0.5	1.6	30.2
SAMIL	Buy	211	32.7	25.5	13.0	11.0	4.9	4.3	0.9	2.4	49.3
CIE Automotive	Buy	569	24.0	19.7	14.4	11.8	3.2	2.9	0.8	2.1	17.1
CEAT	Buy	3,192	21.2	16.6	9.5	8.3	2.8	2.5	0.9	2.4	6.5
Balkrishna Ind	Neutral	3,065	36.7	28.2	22.4	17.7	5.9	5.1	0.7	2.5	19.3
MRF	Sell	1,40,172	29.5	25.3	13.1	11.5	3.2	2.9	0.4	2.9	5.4
Apollo Tyres	Buy	551	21.7	16.6	9.6	8.2	1.9	1.7	1.2	5.6	7.5
Sona BLW	Neutral	731	71.7	56.7	40.9	33.1	13.5	11.6	0.5	0.8	20.1
Tube Investments	Buy	4,344	71.7	58.4	34.7	28.5	13.6	11.1	0.1	1.3	47.1
MSUMI	Buy	70	43.3	33.9	28.1	22.5	15.2	12.3	1.4	0.8	19.6
CRAFTSMAN	Buy	6,512	45.5	29.8	17.6	13.6	4.9	4.3	0.3	0.2	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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