

Second wave of COVID-19 hits hard

2Ws worst hit; Strong order book supports PVs, but new bookings decline

“We are producing at full capacity. There is no shortage, and labor is also available. The demand for personal mobility will strengthen further due to the second COVID-19 wave in the country. It is not going to weaken. More and more people would now like to have personal transport.” – RC Bhargava, Chairman, MSIL

- Regional lockdowns (in nine states) and the uncertainties due to the second wave of COVID-19 has led to a slowdown in the demand momentum in Apr'21. PVs are better off on the back of a strong order book. Supply-chain constraints are leading to lower inventories for PVs and Tractors, leaving scope to replenish inventory in coming months. Wholesales are expected to decline MoM due to the impact of COVID-19.
- Our interaction with leading industry channel partners reflects caution. 2W demand has been slowing, with inventory of 30-60 days at the dealers' end, especially since the key marriage season and mini festive season were impacted due to COVID-19. PV demand momentum has slowed, with people postponing their purchases. Inventory levels for PVs are below normal (less than 20 days), with a waiting period of 6-8 weeks in fast selling models. Demand for M&HCVs remain strong in the Infrastructure segment, while the Cargo segment has slowed down. Supply-side constraints remain, leading to a waiting period of almost 30 days. Tractor demand has largely sustained.
- Considering the impact of COVID-19 from Apr'20, a YoY comparison doesn't make sense. In Apr'21, 2W wholesale volumes are estimated to decline by ~17% MoM, ~7% for PVs (on a strong order book), ~23% for CVs (LCVs/M&HCVs by ~19.5%/~26%; MoM decline is higher due to seasonality), 13% for 3Ws, and ~8% for Tractors.
- 2W sales have been the worst hit as they missed the mini festive and marriage season, resulting in inquiries declining by ~50%. Rural demand is still better-off than urban due to a bountiful Rabi harvest. Dealers are holding 1-2 months of inventory. We expect 2W wholesales for BJAUT to fall by 6% MoM, TVSL by ~20%, HMCL by ~22% and RE by ~6%.
- **PVs:** Demand momentum slowed due to the COVID-19 impact. New bookings declined by 30-50%, while cancellations were ~10%. The waiting period has increased due to supply chain constraints at the OEM level. Dealers are holding 10-20 days of inventory. Volumes are expected to decline by ~5% MoM for MSIL, ~3% MoM for MM, and 19% MoM for TTMT (impacted by restricted production at its Pune plant).
- **CVs:** As most CV dealerships are on highways, they are least impacted by the lockdown. However, disruption on the human resource front and supporting activities like staff, labor movement, finance representatives, etc., impacted 30-40% of retails MoM. Demand for M&HCVs from the Infrastructure segment remains strong, while the same from the Cargo segment slowed due to the ensuing COVID-19 lockdown. M&HCVs now have an up to 30-day waiting period due to supply-side constraints (many other parts including semiconductors). LTV is stable at 85-90%. However, the time taken to process a loan has increased due to COVID-19. Higher tonnage segments continue to dominate due to higher demand from the Infrastructure segment. LCV and SCV demand has also slowed due to restrictions on sale of non-essential goods by e-commerce players in certain regions. We expect AL's wholesales to decline by ~27.5% MoM (~28% for M&HCVs) and that for TTMT by ~21% (~25% for MHCVs).
- **Tractors:** Demand remains strong due to a bountiful Rabi harvest and ahead of Kharif sowing, supported by an expected normal monsoon. Both MM and ESC

are operating at full capacity. Sales remain skewed towards higher HP tractors due to greater demand from the Agriculture segment. Commercial use of Tractors is also picking up. The seasonally weak period of Jan-Apr'21 is used for building inventory ahead of the busy season starting in May'21 (inventory less than 30 days at present). We expect Tractor volumes to decline by ~6%/11% MoM for MM/ESC.

- Valuation and view:** Increase in COVID-19 cases impacted demand across segments in Apr'21. Current valuations largely factor in a sustained recovery (our base case), leaving a limited margin of safety for any negative surprises. We prefer 4Ws over 2Ws as PVs are the least impacted segment currently and offer a stable competitive environment. We expect the CV cycle recovery to sustain and gain momentum. We prefer companies with: a) higher visibility in terms of a demand recovery, b) a strong competitive positioning, c) margin drivers, and d) balance sheet strength. MSIL and MM are our top OEM picks. Among Auto Component stocks, we like ENDU. We prefer TTMT as a play on global PVs.

Snapshot of volumes for Apr'21

Company sales	YoY			MoM		FY22E estimate	Growth (%)	Residual growth (%)	Residual monthly run-rate
	Apr'21	Apr'19	Two-year CAGR (%)	Mar'21	Change (%)				
Maruti Suzuki	1,58,457	143,245	5.2	1,67,014	-5.1	18,75,975	28.7	17.9	1,56,138
LCVs	3,000	2,319	13.7	3,315	-9.5	56,156	90.0	79.8	4,832
Vans	11,000	11,649	-2.8	11,547	-4.7	1,36,605	30.0	19.5	11,419
Mini Segment	23,000	22,766	0.5	24,653	-6.7	2,83,102	25.2	15.0	23,646
Compact (including Dzire Tour)	83,000	72,510	7.0	84,938	-2.3	9,32,756	25.7	14.5	77,251
Mid-size - Ciaz	1,300	2,789	-31.7	1,628	-20.1	15,930	15.0	5.6	1,330
UVs	28,000	22,035	12.7	29,336	-4.6	3,27,076	33.5	22.1	27,189
Domestic	1,49,300	134,068	5.5	1,55,417	-3.9	17,51,625	28.6	17.7	1,45,666
Export	9,157	9,177	-0.1	11,597	-21.0	1,24,350	29.3	20.6	10,472
Mahindra & Mahindra	66,500	72,273	-4.1	71,373	-6.8	8,56,085	21.1	12.6	71,780
UV (including pick-ups)	34,000	38,368	-5.9	35,150	-3.3	4,25,732	30.0	19.9	35,612
LCV and M&HCV	500	1,037	-30.6	792	-36.9	6,446	51.0	39.2	541
Three-Wheelers	3,000	4,316	-16.6	4,461	-32.8	41,050	100.0	85.4	3,459
Tractors	29,000	28,552	0.8	30,970	-6.4	3,82,858	8.0	1.2	32,169
Tata Motors	56,000	43,909	12.9	70,322	-20.4	7,05,172	45.3	33.7	59,016
HCVs	13,000	12,771	0.9	17,313	-24.9	1,41,497	56.9	42.5	11,682
LCVs	19,000	18,392	1.6	23,296	-18.4	2,15,773	25.0	14.0	17,888
CV's	32,000	31,163	1.3	40,609	-21.2	3,57,270	36.0	23.8	29,570
Cars	13,000	6,128	45.7	16,598	-21.7	1,83,414	34.9	25.4	15,492
UV's	11,000	6,618	28.9	13,115	-16.1	1,64,488	89.8	77.1	13,953
Hero MotoCorp	4,50,000	574,366	-11.5	5,76,957	-22.0	69,49,847	20.0	12.2	5,90,895
Bajaj Auto	3,44,300	242,575	19.1	3,69,448	-6.8	50,48,862	27.1	19.6	4,27,687
Motorcycles	3,10,000	210,976	21.2	3,30,133	-6.1	44,53,471	23.5	15.9	3,76,679
Two-Wheelers	3,10,000	210,976	21.2	3,30,133	-6.1	44,53,471	23.5	15.9	3,76,679
Three-Wheelers	34,300	31,599	4.2	39,315	-12.8	5,95,391	62.2	55.4	51,008
Ashok Leyland	12,500	13,626	-4.2	17,231	-27.5	1,69,069	67.9	55.5	14,234
M&HCV	8,000	9,346	-7.5	11,101	-27.9	93,373	80.2	64.8	7,761
LCV	4,500	4,280	2.5	6,130	-26.6	75,696	54.8	45.6	6,472
TVS Motor	2,59,144	318,987	-9.9	3,22,683	-19.7	37,16,432	21.8	13.6	3,14,299
Eicher Motors									
Royal Enfield	62,000	60,831	1.0	66,058	-6.1	8,91,770	45.6	35.5	75,434
VECV	5,220	8,676	-22.4	7,037	-25.8	59,362	43.8	31.5	4,922
Escorts	11,025	11,905	-3.8	12,337	-10.6	1,15,280	8.0	-1.7	9,478

NOTES

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