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### Q3FY23 result preview

### Top Picks

- TVS Motor Company (TVSL IN)
- Ashok Leyland (AL IN)
- Apollo Tyres (APTY IN)
- Balkrishna Industries (BIL IN)
- Mahindra CIE (MACA IN)

### Research Analysts:

**Basudeb Banerjee**

Basudeb.banerjee@icicisecurities.com  
+91 22 6807 7260

## Auto & auto ancillaries

### Improving margin to cushion earnings sequentially

Q3FY23 has been a quarter of weak 2W and PV wholesales due to de-stocking as against strong CV and tractor volumes. Though retail demand across segments has been robust, driven by festive season, harvesting season and year-end discounts, personal mobility segment wholesales were subdued for majority players. Thus, we believe for CV and tractor players, profitability would improve ~200bps QoQ led by the dual impact of better scale and lower input commodity costs. For personal mobility space, we expect margins to remain flattish QoQ amidst weaker scale, resulting in weaker earnings sequentially for majority. In Q4FY23, we expect earnings of whole space to improve led by superior scale (seasonal aspect) and lag effect of weaker commodity prices. Within ancillary businesses, we expect profitability of tyre players to recover by ~200bps QoQ led by a combination of price hikes and decline in raw material basket cost. For OEM-centric ancillary players, both domestic and foreign, it would be a combination of flattish production QoQ as against a slight improvement in EBITDAM QoQ driven by the gradual easing in input cost inflation drivers. Our top picks continue to be TVS Motor and Ashok Leyland in OEMs vs Mahindra CIE, Balkrishna Industries and Apollo Tyres in ancillaries.

- ▶ **Volume subdued for personal mobility players; strong for CV/tractors:** Despite strong retails across segments, wholesales remained subdued due to destocking activities in personal mobility segments of 2Ws/PVs. CVs/tractors performed well, in line with retails. Price hike momentum continued with a lag to pass on the cost inflation along with discounts remaining under control in general.
- ▶ **Key factors to watch out:** 1) Gross margin improvement across segments QoQ; 2) inventory levels, chip-supply situation, demand outlook; and 3) new launch pipeline, timelines and pricing strategy ahead; 4) outlook on input commodity costs with steel prices again starting to inch up from November lows.
- ▶ **Our view:** We expect Q3FY23E earnings to sail through smoothly (QoQ), with weaker scale impact getting balanced by higher gross margin QoQ, with Q4 being a quarter of better scale and margin combined. Despite scale being closer to the FY19 highs in PVs/CVs, EBITDA for most is far lower than the FY19 levels led by lower gross margin, which we believe should gradually recover from Q3FY23.

### Quarterly summary

Company (Rs mn)	Revenue			EBITDA			Adjusted PAT		
	OND' 22	% chg (YoY)	(QoQ)	OND' 22	% chg (YoY)	(QoQ)	OND' 22	% chg (YoY)	(QoQ)
<b>2-wheelers</b>									
Bajaj Auto	88,003	-2%	-14%	15,241	11%	-13%	13,181	9%	-14%
Eicher Motors	36,310	26%	3%	9,232	59%	12%	7,176	57%	9%
Hero Motocorp	79,340	1%	-13%	8,705	-9%	-16%	5,940	-13%	-17%
TVS Motors	61,999	9%	-14%	6,250	10%	-15%	3,225	12%	-21%
<b>Total</b>	<b>2,65,653</b>	<b>4%</b>	<b>-11%</b>	<b>39,428</b>	<b>13%</b>	<b>-9%</b>	<b>29,522</b>	<b>12%</b>	<b>-11%</b>
<b>4-wheelers</b>									
Ashok Leyland	85,161	54%	3%	6,487	190%	21%	3,012	N.M.	58%
M&M	2,16,468	42%	4%	29,035	61%	16%	23,198	88%	-1%
Maruti Suzuki	2,70,257	16%	-10%	25,823	66%	-7%	18,350	81%	-11%
Tata Motors	8,13,557	13%	2%	80,737	19%	30%	4,263	N.M.	N.M.
<b>Total</b>	<b>13,85,443</b>	<b>19%</b>	<b>0%</b>	<b>1,42,081</b>	<b>37%</b>	<b>18%</b>	<b>48,823</b>	<b>303%</b>	<b>33%</b>
<b>Ancillaries</b>									
Asahi India	9,510	17%	-4%	2,017	-7%	-8%	954	-5%	-10%
Apollo Tyres	65,700	15%	10%	8,969	21%	26%	3,219	44%	66%
Balkrishna Inds.	26,250	26%	-6%	5,225	3%	-7%	3,475	6%	-14%
Bharat Forge	18,544	16%	-1%	4,651	14%	3%	2,751	-18%	3%
Bosch	35,884	15%	-2%	3,618	1%	-16%	2,799	19%	-25%
CEAT	29,524	22%	2%	2,588	93%	27%	654	N.M.	170%
Mahindra CIE	27,897	35%	2%	3,294	63%	4%	1,810	95%	6%
Motherson Sumi	17,802	22%	-3%	2,081	0%	15%	1,366	-10%	17%
MSWIL	1,86,260	16%	2%	15,229	41%	9%	4,637	321%	24%
Sansera Engg	6,210	28%	-2%	1,061	42%	0%	455	22%	-1%
Sona Comstar	6,442	30%	-2%	1,674	28%	1%	928	26%	0%
Varroc Engg	16,452	11%	-10%	1,203	62%	-13%	29	N.M.	N.M.
ZCVCS	8,166	25%	3%	1,201	105%	12%	772	143%	12%
<b>Total</b>	<b>4,54,640</b>	<b>18%</b>	<b>1%</b>	<b>52,810</b>	<b>26%</b>	<b>6%</b>	<b>23,849</b>	<b>41%</b>	<b>5%</b>

Source: I-Sec research; OND: Oct-Nov-Dec

**Table 1: Commodity trends**

Commodity	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
INR - USD	73.79	72.91	73.72	74.09	74.98	75.22	77.23	79.82	82.20
INR - GBP	97.43	100.51	103.11	102.12	101.06	100.93	97.06	93.95	96.19
JPY - USD	104.47	105.92	109.47	110.08	113.71	116.25	129.71	138.39	141.41
GBP - USD	1.32	1.38	1.40	1.38	1.35	1.34	1.26	1.18	1.17
EUR - GBP	0.90	0.87	0.86	0.86	0.85	0.84	0.85	0.86	0.87
EUR - INR	86.98	86.79	86.52	85.72	84.93	84.27	82.26	80.39	84.13
LEAD	1,914	2,035	2,137	2,288	2,298	2,328	2,205	1,975	2,077
RUBBER	15,214	15,816	16,852	17,326	17,676	16,651	17,352	16,305	14,663
HRC China	5,093	5,271	5,38	5,289	5,057	5,033	4,910	4,079	3,878
Aluminium	1,930	2,102	2,410	2,652	2,759	3,245	2,905	2,357	2,346
Brent (US\$/bbl)	45	61	69	73	80	97	112	98	89
Rubber RSS4 (Rs/kg)	152	158	169	173	177	167	174	163	147

Source: Bloomberg

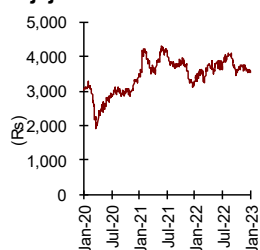
**Table 2: I-Sec auto/ancs universe rating summary**

BUY	ADD	HOLD	REDUCE
Maruti Suzuki	Hero Motocorp	Bajaj Auto	CEAT
Tata Motors	M&M	Asahi India	
TVS Motors	ZF CV Systems	Bosch	
Ashok Leyland	Bharat Forge		
Apollo Tyres			
Balkrishna Industries			
Eicher Motors			
Mahindra CIE			
SAMIL			
MSWIL			
Sansera Engg			
Sona BLW			
Varroc Engineering			

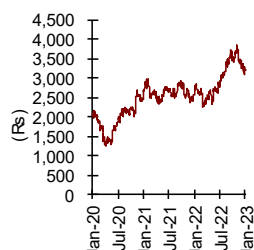
Source: I-Sec research

## Price charts

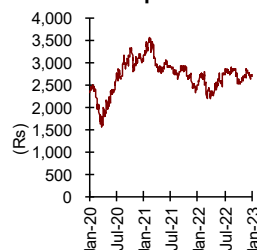
Bajaj Auto



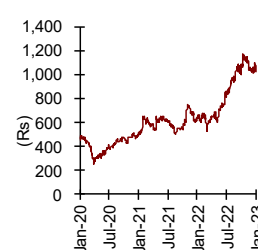
Eicher Motors



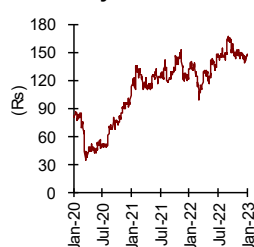
Hero Motocorp



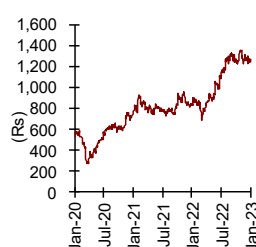
TVS Motors



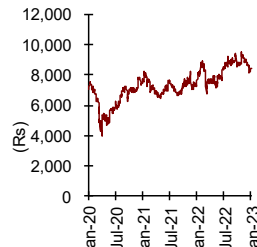
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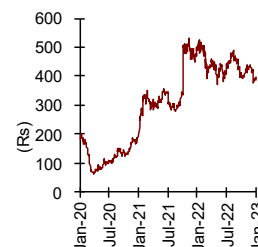
M&amp;M



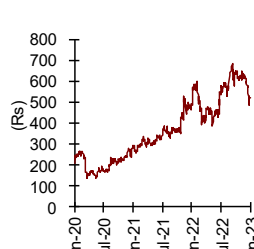
Maruti Suzuki



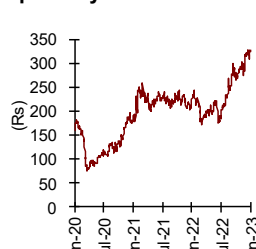
Tata Motors



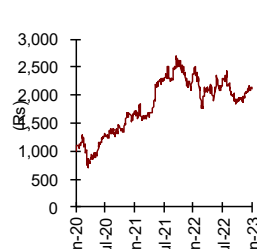
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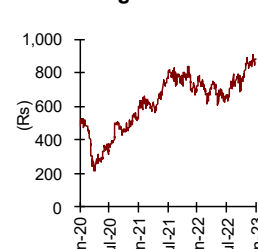
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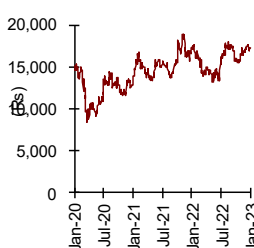
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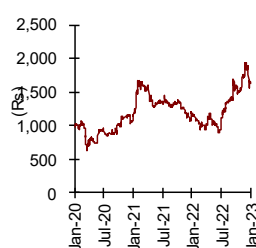
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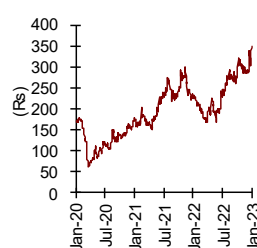
Bosch



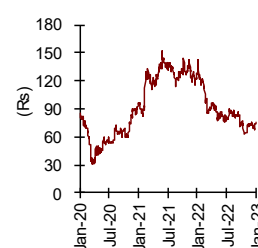
CEAT



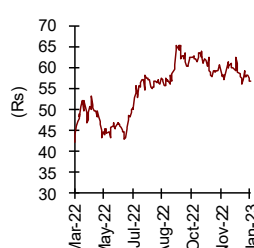
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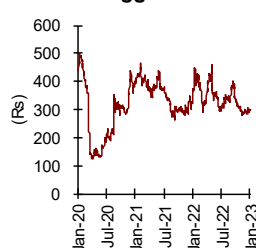
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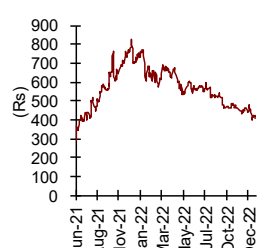
MSWIL



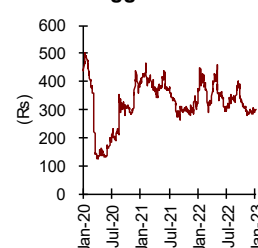
Sansera Engg



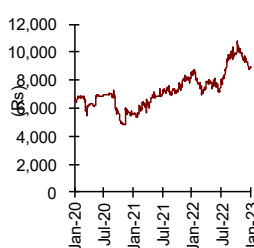
Sona Comstar



Varroc Engg



ZF Commercial Vehicle Control



Source: Bloomberg

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