

Automobiles

Weakness in rural demand persists; urban better off

...slight improvement in 2W demand; however, broad-based recovery still a long way to go

"Indeed things are much better than what they were six months back from the point of view of the demand coming back. There was a reasonable festive season then there was a little dip after the festive season but now it does seem that the industry after a long time actually will be in the positive zone for the coming let us say 12 months. We still have some headwinds, as you know, in the international business, thanks to the volatility around the dollar. Both the devaluation and the availability of the dollar is a big handicap for international business and in one of our largest markets

Mr. Rakesh Sharma,
Executive director, Bajaj Auto

- Our interactions with leading channel partners indicate that there is a slight slowdown in enquiry levels during the month on a sequential basis. However, retails are expected to grow at 8-12% YoY across segments. Driven by a healthy uptick in the urban markets, coupled with the marriage season in northern regions (20-25% of total demand in key states such as UP and Bihar), 2W demand has slightly improved in Feb'23. This is expected to drive 10-12% YoY growth in retail volumes. PV retails are expected to grow 6-8% YoY. There has been an 8-10% drop in the enquiries across OEMs, which is expected to result in a sequential volume decline for the month. However, overall sentiments are still positive as booking trends remains healthy. Our channel checks suggest CV volumes to grow 11-13% YoY during the month. Demand perceptions were mixed as we observed a decline in demand from segments such as agriculture, while demand from other industries remained stable. While tractor retails are expected to grow at 10-12% YoY, we expect the same to decline 7-9% MoM. Due to sluggish cash flows in some regions and the anticipation of severe effects from this year's heatwaves, the mood in the agricultural sector has been down of late. Overall, in Feb'23, wholesale volumes for PV/CV/2W/tractor/3Ws are estimated to grow at 5%/ -4%/ 1%/17%/14% YoY.
- **2Ws:** Demand sentiments in urban belts are better off than rural centric belts. Retails have been better in western and southern regions v/s other geographies. Our interactions with channel partners in key western regions indicate a 15-17% YoY growth during the month. Marriage season demand (contributing 20-25% in key states such as UP and Bihar) has helped to somewhat offset the subdued demand in rural areas. Average inventory for 2W stands at a comfortable level of 4-5 weeks with HMCL at the upper end. We noted positive feedback for the newly launched HMCL's Xoom. Early comments suggest that it is reasonably priced and offers better features than its competitors. This should support HMCL's goal of expanding its market share in scooters. As the dispatches have just begun in selected regions, we still await feedback on overall bookings. Demand for RE models remains intact. However, led by improved dispatches, waiting period for Hunter has reduced by 10-15 days. On the other hand, our checks indicate that the waiting period for New Meteor 650 is ~3 months. Although there are a significant number of enquiries for Meteor 650, lack of vehicle availability for test drive is not helping convert the enquiries to sales. We expect 2W retails to grow 10-12% YoY in February'23.
- **PVs:** There has been an 8-10% drop in the enquiries across OEMs, which should result in sequential volume decline for the month. However, overall sentiments are still positive as booking trends continue to be healthy. Pending orders for MSIL's Brezza/Grand Vitara/Jimny/Fronx stand at 70k/45k/20k/10k units. We noted that the waiting period for M&M models have declined 1-1.5 months, led by improved supplies. The overwhelming response for Thar 2WD has led to the

Jinesh Gandhi - Research analyst (Jinesh@MotilalOswal.com)

Research analyst: Amber Shukla (Amber.Shukla@MotilalOswal.com) | **Aniket Desai** (Aniket.Desai@motilaloswal.com)

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waiting period crossing a year for the diesel variant. While for the 4WD variant, the waiting period is just about one month. Our interactions suggest that all the models of TTMT are now BS6 compliant and come with an enhanced warranty period. While there has been a supply chain improvement across OEMs, AMT variants for most of the models are still under long waiting periods. Overall, PV retails are expected to grow 6-8% YoY. For dispatches, we expect, MSIL/MM (incl pickups)/TTMT volumes to grow 2%/6%/17% YoY.

- **CVs:** Our channel checks expect CV volumes to grow 11-13% YoY during the month. Demand perceptions were mixed as we observed a decline in demand from segments such as agriculture, while demand from other industries remained stable. Depending on the geographies, fleet utilization rate ranges between 75% and 78%. Infrastructure and construction-led demand continues to remain strong, resulting in better demand for higher tonnage vehicle. However, we are yet to see a broad-based recovery, especially through new fleet additions. We noted that inventory levels are at 15-17 days (stable MoM) v/s 28-30 days till Dec'22. This is a result of inventory management, due to the upcoming BS6 phase 2 norms in Apr'23. As per our interaction with a fleet operator based in MP, the increase in interest rates has not had any significant impact on the demand because this is expected to get offset by an increase in freight rates in the coming months.
- **Tractors:** While tractor retails are expected to grow at 10-12% YoY, we expect the same to decline 7-9% MoM. Due to sluggish cash flows from some regions and the anticipation of severe effects from this year's heatwaves, the agricultural sector has been numb and gloomy of late. Our interaction with a dealer based in the Eastern belt suggests that the sector is struggling with cash flows, due to the government's 60% budget cut for the purchase of paddy crops. Also, the heatwaves witnessed in Delhi and other northern regions may adversely impact the wheat crops in the coming months. Demand from the non-agri sector is steadily increasing, but it is still down by 15-17% from the previous year. Inventory level stands at 38-40 days with M&M at the highest. We noted that John Deere raised prices of tractors by INR5k-10k per vehicle this month (also, by the same amount in previous month). Other tractor OEMs too are expected to announce price hikes soon. TREM-IV norms for over 50HP tractors resulted in INR1-1.5L/vehicle (12-14%) price increase. However, dealers are still holding the old inventory, which they plan to clear by 30th June'23, the deadline for registration.
- **Valuation and view:** We prefer 4Ws over 2Ws, on the back of strong demand along with a stable competitive environment. We expect the CV cycle to maintain its momentum. 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. **AL** is our top OEM pick. We also prefer **HMCL** as a pure play on the domestic 2W demand recovery. Among auto component stocks, we prefer **MOTHERSO & BHFC**.

Snapshot of volumes for Feb-23

Company Sales	YoY			MoM				
	Feb-23	Feb-22	YoY (%) chg	Jan-23	MoM (%) chg	FY23YTD	FY22YTD	(%) chg
Maruti Suzuki	1,66,770	1,64,056	1.7	1,72,535	-3.3	17,90,542	14,82,258	20.8
LCVs	3,732	3,659	2.0	4,019	-7.1	34,358	30,015	14.5
Vans	9,650	9,190	5.0	11,709	-17.6	1,17,494	99,124	18.5
Mini Segment	20,282	19,691	3.0	25,446	-20.3	2,19,736	1,96,271	12.0
Compact (incl Dzire Tour)	81,728	77,836	5.0	74,766	9.3	8,20,975	6,41,682	27.9
Mid Size - CIAZ	1,969	1,912	3.0	1,000	96.9	14,487	14,035	3.2
UVs	31,909	27,747	15.0	38,202	-16.5	3,53,985	2,89,251	22.4
Domestic	1,49,270	1,40,035	6.6	1,55,142	-3.8	15,61,035	12,70,378	22.9
Export	17,500	24,021	-27.1	17,393	0.6	2,29,507	2,11,880	8.3
Mahindra & Mahindra	84,721	74,892	13.1	93,261	-9.2	10,05,035	7,35,893	36.6
UV (incl. pick-ups)	52,953	49,956	6.0	56,825	-6.8	5,71,564	3,79,316	50.7
LCV & M&HCV	790	687	15.0	948	-16.7	8,280	5,606	47.7
Three-Wheelers	6,862	3,812	80.0	6,562	4.6	54,335	26,036	108.7
Tractors	24,116	20,437	18.0	28,926	-16.6	3,70,856	3,24,935	14.1
Tata Motors	78,789	77,733	1.4	81,069	-2.8	8,62,662	6,39,630	34.9
HCV's	14,349	16,306	-12.0	15,057	-4.7	1,52,027	1,21,262	25.4
LCV's	17,634	21,246	-17.0	17,723	-0.5	2,10,107	1,88,660	11.4
CV's	31,983	37,552	-14.8	32,780	-2.4	3,62,134	3,09,922	16.8
Cars	14,344	11,953	20.0	15,281	-6.1	1,62,701	1,30,301	24.9
UV's	32,462	28,228	15.0	33,008	-1.7	3,37,827	1,99,407	69.4
Hero MotoCorp	3,69,002	3,58,254	3.0	3,56,690	3.5	47,83,746	44,93,978	6.4
Bajaj Auto	2,91,884	3,16,020	-7.6	2,85,995	2.1	36,45,813	40,11,245	-9.1
Motorcycles	2,47,160	2,79,337	-11.5	2,41,107	2.5	32,05,506	35,80,532	-10.5
Two-Wheelers	2,47,160	2,79,337	-11.5	2,41,107	2.5	32,05,506	35,80,532	-10.5
Three-Wheelers	44,723	36,683	21.9	44,888	-0.4	4,40,306	4,30,713	2.2
Domestic	1,77,233	1,12,747	57.2	1,73,270	2.3	19,41,902	16,75,055	15.9
Exports	1,14,651	2,03,273	-43.6	1,12,725	1.7	17,03,911	23,36,190	-27.1
Ashok Leyland	16,684	14,657	13.8	17,200	-3.0	1,66,392	1,08,203	53.8
M&HCV	10,861	9,363	16.0	11,050	-1.7	1,05,529	59,895	76.2
LCV	5,823	5,294	10.0	6,150	-5.3	60,863	48,308	26
TVS Motor	2,90,249	2,81,714	3.0	2,75,115	5.5	33,79,015	30,01,624	12.6
Motorcycles	1,40,653	1,43,523	-2.0	1,21,042	16.2	16,06,416	15,70,937	2.3
Scooters	1,00,475	86,616	16.0	1,06,537	-5.7	11,87,140	8,27,192	43.5
Mopeds	38,611	37,486	3.0	37,131	4.0	4,24,552	4,46,656	-4.9
Three-Wheelers	10,511	14,089	-25.4	10,405	1.0	1,60,908	1,56,839	2.6
Domestic	2,25,705	1,74,140	29.6	2,18,091	3.5	23,74,856	18,58,157	27.8
Exports	64,544	1,07,574	-40.0	57,024	13.2	10,04,159	11,43,467	-12.2
Eicher Motors								
Royal Enfield	75,100	59,153	27.0	74,746	0.5	7,66,216	5,34,591	43.3
VECV	6,812	5,856	16.3	7,181	-5.1	67,219	48,274	39.2
Escorts Kubota	7,031	6,114	15.0	6,649	5.7	92,205	84,154	9.6

Comparative valuations

Auto OEM's	Rating	Mcap (INR b)	CMP (INR)	TP (INR)	P/E (x)			EV/EBITDA (x)			PB (x)			FY24 Yield (%)		EPS CAGR (%) FY22-24E
					FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	Div	FCF	
Bajaj Auto	Neutral	1,090	3,851	4,150	21.0	18.1	16.0	17.0	13.2	11.2	4.2	4.5	4.4	5.2	4.7	14.6
Hero MotoCorp	Buy	498	2,486	3,100	20.1	17.7	14.2	11.5	9.6	7.5	3.1	3.0	2.8	5.0	7.5	18.8
TVS Motor	Neutral	525	1,105	1,000	58.4	34.6	26.1	27.7	19.1	14.6	10.9	8.6	6.7	0.5	4.1	49.5
Eicher Motors	Buy	876	3,204	3,625	52.2	31.3	23.8	39.1	24.7	20.3	6.9	5.9	4.9	0.8	5.0	48.2
Maruti Suzuki	Buy	2,616	8,660	10,500	69.5	33.4	23.8	38.8	20.8	15.0	4.8	4.4	3.9	1.5	3.2	69.1
M&M	Buy	1,532	1,281	1,550	29.8	20.5	15.0	22.0	14.6	10.3	2.0	1.7	1.5	1.2	6.0	41.0
Tata Motors	Buy	1,638	428	540	-15.1	-81.1	15.8	9.4	7.4	4.0	3.7	3.7	3.0	0.0	18.3	LTP
Ashok Leyland	Buy	415	141	185	2,407.9	36.4	18.2	44.6	15.7	10.6	5.9	5.7	5.2	1.4	6.0	1,048.8
Escorts	Neutral	247	2,016	1,900	29.1	34.6	27.1	23.5	28.7	15.2	2.9	2.8	2.8	0.5	3.2	3.6
Auto Ancillaries																
Bharat Forge	Buy	386	829	1,065	38.2	49.2	24.9	22.0	21.0	14.4	5.9	5.5	4.6	0.8	4.3	24.0
Exide Industries	Buy	149	176	215	17.8	15.3	13.5	10.6	8.9	7.9	1.4	1.3	1.2	1.8	6.8	14.8
Amara Raja	Neutral	98	573	630	19.1	12.5	11.6	9.5	6.8	6.0	2.2	1.9	1.7	2.6	4.6	28.5
BOSCH	Neutral	525	17,810	18,125	43.1	36.0	28.1	34.9	26.8	20.3	4.9	4.6	4.2	1.7	1.5	24.0
Endurance Tech	Buy	180	1,280	1,625	37.1	36.0	24.0	18.7	17.0	12.5	4.6	4.2	3.8	1.0	2.5	24.3
SAMIL	Buy	558	82	100	67.8	39.5	20.9	9.2	11.2	7.8	2.7	2.6	2.4	1.4	6.4	80.1
Mahindra CIE	Buy	170	449	450	42.0	24.8	19.0	18.8	14.7	11.5	3.3	3.3	2.9	0.9	1.7	48.6
CEAT	Buy	59	1,465	1,860	74.7	36.1	12.3	11.3	8.8	5.4	1.8	1.8	1.6	0.8	11.4	146.2
Balkrishna Ind	Neutral	396	2,047	2,035	27.7	39.0	25.1	18.6	20.7	15.0	5.7	5.2	4.6	1.5	3.6	5.1
MRF	Sell	368	86,751	75,000	55.0	54.4	27.8	17.4	16.8	11.4	2.6	2.5	2.3	0.2	1.7	40.7
Apollo Tyres	Buy	203	319	395	28.4	18.0	12.6	9.6	6.8	5.2	1.6	1.5	1.3	1.4	11.9	50.0
Sona BLW	Neutral	269	461	520	79.2	66.6	45.7	47.6	37.8	26.3	13.5	11.7	9.8	0.6	0.9	31.7
Tube Investments	Buy	478	2,550	3,246	50.5	38.2	31.1	34.5	24.5	20.3	16.0	12.5	9.8	0.3	3.4	27.5
MSUMI	Buy	221	50	73	47.2	45.3	27.3	21.2	28.0	17.6	19.8	16.5	11.6	1.8	3.1	31.5

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4263; www.motilaloswal.com. Correspondence Address: Palm Spring Centre, 2nd Floor, Palm Court Complex, New Link Road, Malad (West), Mumbai- 400 064. Tel No: 022 71881000. Details of Compliance Officer: Neeraj Agarwal, Email Id: na@motilaloswal.com, Contact No.:022-71881085.

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