

# Automobiles

## To fire on all cylinders: Gearing up for the festive demand... ...expect YoY retail growth across the segments

"People have realized BS6 emission norms will be here for the next few years and they are replacing their fleets with the latest technology. Heavy and medium-duty trucks in India could anywhere be between 15-17 million units that will reach their mandated lifespan in the coming few years. Basically there is still a huge replacement demand to be fulfilled. This replacement is consistent enough to give us at least a decade of growth for the CV industry and we are preparing for that..."

**Mr. Satyakam Arya,**  
MD & CEO, Daimler India CV

- Our interactions with the leading channel partners indicate a sustained recovery in domestic 2W demand as the retail is expected to grow 4-5% YoY. This will be fueled by 5-7%/3-5% YoY volume growth in urban/rural. In CVs, while fleet utilization remained weak due to seasonality impact, MHCV retail is expected to grow 4-6% YoY as freight demand is likely to improve post-monsoon owing to the upcoming festive season. PV retail is likely to jump 5-7% YoY propelled by execution of order backlog and moderating supply chain issues. However, inventory has inched up across geographies and remains on the higher side at 40-45 days in South India while remaining lower in western and central parts at 35-40 days each. Tractor volumes are expected to grow 3-5% YoY led by healthy reservoir level and favorable crop realization. However, demand has remained muted in the southern markets.
- **2Ws:** Retail for Aug'23 is expected to improve 4-5% YoY driven by stable urban demand along with gradual recovery in rural market. Our checks suggest urban volume growth has been in the range of 5-7% YoY while rural growth has been 3-5% YoY. iQube, which had a waiting period of one month, is now readily available post the decline in sales due to FAME subsidy reduction. To counter the competition in the 100CC segment, prices for both TVS Radeon and HMCL's HF Deluxe have been cut by INR4k-5k. The volumes of HF Deluxe have been adversely impacted by just 10-15% due to Shine 100, while there is no major impact on Splendor. However, this is likely to come down further going forward. Inventory across most of the 2W dealers stands healthy at 35-40 days with HMCL being the highest with 45-50 days. RE currently has an inventory level of 2-3 weeks. We expect dispatches for HMCL/BJAUT to decline 7%/18% YoY, while the same is projected to grow for TVSL/RE by ~3%/8% YoY.
- **CVs:** MHCV retail is anticipated to grow 4-6% YoY during the month as freight demand is likely to improve post-monsoon due to the upcoming festive season. LCV volumes are projected to decline 3-5% YoY. Due to seasonality, return freight demand has been muted during the month. Our interactions with one of the fleet operators indicated that number of trips per month in the route has declined to 2.5 trips v/s 3.5 normally for the specific route. This has resulted in a freight rate decline of 10-15% vis-à-vis last quarter. However, freight load is expected to improve driven by rural recovery on the back of better agri sentiments and improving port demand. This coupled with upcoming festivals and positive macro outlook should drive healthy growth from mid-Sep'23. We expect dispatches for TTMT CV/ AL/VECV to grow 7%/10%/17% YoY.
- **PVs:** Retail is anticipated to jump 5-7% YoY fueled by execution of order backlog and easing supply chain issues. Inquiries and bookings continue to remain stable MoM. TTMT launched its twin-cylinder CNG technology in all its petrol-powered models (ex-Nexon) and initial feedback from dealers suggests 20% incremental sales from these variants. MSIL dealers do not expect a dent in demand for their CNG-powered vehicles in the short term and expect this move by TTMT to expand the CNG market as a whole. MSIL's Jimny has a waiting period of just

two weeks with the initial euphoria coming off while that of Ertiga continues to remain 8-12 months (varies region wise), specifically for automatic and CNG variants. Inventory days have inched up across geographies and remained on the higher side (40-45 days) in South India while remaining lower in western and central parts at 35-40 days each. We expect dispatches for MSIL/MM (including pickups) /TTMT to grow 11%/12% /3% YoY.

- **Tractors:** Our channel checks suggest Aug'23 retail to grow 3-5% YoY fueled by healthy reservoir level and favorable crop realizations. However, demand has remained muted in the southern markets. Inventory level has started inching up as we approach the festive season and it currently stands at 6-7 weeks vis-à-vis 5-6 weeks in Jul'23. During the month, M&M has launched its new lightweight 4WD tractor range 'Oja', at a pricing of INR5.64L/INR7.35L for OJA 2127/OJA 3140 models. Our interactions with channel partners suggest that the models provide some best-in-segment features and this will help M&M strengthen its presence in the category along with its other range of products, Jivo and Yuvraj. However, pricing of OJA 3140 seems higher than peers and traction will be seen in limited regions for that specific model. M&M took price increase of INR6-7k/unit this month. We expect dispatches for M&M/ESCORTS to grow 7%/ decline 1.5% YoY.
- **Valuation and view:** We prefer CVs over other segments, led by strong demand and a stable competitive environment. We prefer companies with: 1) higher visibility in terms of demand recovery, 2) a strong competitive positioning, 3) encouraging margin drivers, and 4) a strong balance sheet. **TTMT and AL are our top OEM picks and BHFC is among our preferred auto component stocks.**

## Snapshot of volumes for Aug-23

Company Sales	YoY			MoM							Residual Growth (%)	Residual Monthly Run rate	FY24 YTD Monthly Run rate
	Aug-23	Aug-22	YoY (%) chg	Jul-23	MoM (%) chg	FY24YTD	FY23YTD	(%) chg	FY24E	Gr. (%)			
<b>Maruti Suzuki</b>	<b>1,83,129</b>	<b>1,65,173</b>	<b>10.9</b>	<b>1,81,630</b>	<b>0.8</b>	<b>8,62,789</b>	<b>8,09,020</b>	<b>6.6</b>	<b>21,68,905</b>	<b>10.3</b>	<b>12.9</b>	<b>1,86,588</b>	<b>1,72,558</b>
LCVs	3,034	3,371	-10.0	2,559	18.6	13,672	17,004	-19.6	37,246	-2.0	12.2	3,368	2,734
Vans	11,879	11,999	-1.0	12,037	-1.3	56,592	56,813	-0.4	1,40,374	7.0	12.6	11,969	11,318
Mini Segment	11,081	22,162	-50.0	9,590	15.5	61,071	91,482	-33.2	2,18,605	-6.1	11.4	22,505	12,214
Compact (incl Dzire Tour)	73,089	74,581	-2.0	71,848	1.7	3,68,440	3,74,061	-1.5	9,32,481	3.3	6.7	80,577	73,688
Mid-Size - CIAZ	1,364	1,516	-10.0	1,348	1.2	6,465	5,567	16.1	13,950	2.5	-6.9	1,069	1,293
UVs	60,126	30,063	100.0	62,049	-3.1	2,48,576	1,52,864	62.6	5,64,322	45.3	34.1	45,107	49,715
Domestic	1,60,574	1,43,692	11.7	1,59,431	0.7	7,54,817	6,97,791	8.2	19,06,979	20.7	30.6	1,64,595	1,50,963
Export	22,555	21,481	5.0	22,199	1.6	1,07,972	1,11,229	-2.9	2,61,926	1.0	3.9	21,993	21,594
<b>Mahindra &amp; Mahindra</b>	<b>90,917</b>	<b>80,569</b>	<b>12.8</b>	<b>91,299</b>	<b>-0.4</b>	<b>4,83,363</b>	<b>4,31,995</b>	<b>11.9</b>	<b>12,55,186</b>	<b>13.5</b>	<b>14.5</b>	<b>1,10,260</b>	<b>96,673</b>
UV (incl. pick-ups)	60,032	53,600	12.0	58,648	2.4	2,83,718	2,45,436	15.6	7,40,133	17.5	18.7	65,202	56,744
LCV & M&HCV	1,148	656	75.0	995	15.4	5,463	3,417	59.9	13,532	34.8	21.9	1,153	1,093
Three-Wheelers	6,710	4,793	40.0	6,481	3.5	30,971	19,806	56.4	75,637	29.3	15.4	6,381	6,194
Tractors	23,026	21,520	7.0	25,175	-8.5	1,63,210	1,63,336	-0.1	4,25,885	4.5	7.6	37,525	32,642
<b>Tata Motors</b>	<b>82,324</b>	<b>78,843</b>	<b>4.4</b>	<b>80,633</b>	<b>2.1</b>	<b>3,89,202</b>	<b>3,91,881</b>	<b>-0.7</b>	<b>10,13,881</b>	<b>6.2</b>	<b>11.0</b>	<b>89,240</b>	<b>77,840</b>
HCV's	14,388	12,846	12.0	13,830	4.0	63,863	65,516	-2.5	1,89,407	4.7	8.9	17,935	12,773
LCV's	19,205	18,646	3.0	19,114	0.5	88,469	1,01,051	-12.5	2,37,149	1.9	12.9	21,240	17,694
<b>CV's</b>	<b>33,593</b>	<b>31,492</b>	<b>6.7</b>	<b>32,944</b>	<b>2.0</b>	<b>1,52,332</b>	<b>1,66,567</b>	<b>-8.5</b>	<b>4,26,555</b>	<b>3.1</b>	<b>11.0</b>	<b>39,175</b>	<b>30,466</b>
Cars	13,827	14,110	-2.0	13,250	4.4	69,959	70,293	-0.5	1,81,581	2.5	4.4	15,946	13,992
UV's	34,903	33,241	5.0	34,439	1.3	1,66,911	1,55,021	7.7	4,05,744	11.5	14.3	34,119	33,382
<b>Hero MotoCorp</b>	<b>4,30,225</b>	<b>4,62,608</b>	<b>-7.0</b>	<b>3,91,310</b>	<b>9.9</b>	<b>21,74,109</b>	<b>22,98,381</b>	<b>-5.4</b>	<b>56,17,340</b>	<b>5.4</b>	<b>13.6</b>	<b>4,91,890</b>	<b>4,34,822</b>
<b>Bajaj Auto</b>	<b>3,43,824</b>	<b>4,01,595</b>	<b>-14.4</b>	<b>3,19,747</b>	<b>7.5</b>	<b>16,90,978</b>	<b>16,89,911</b>	<b>0.1</b>	<b>43,86,094</b>	<b>11.7</b>	<b>20.4</b>	<b>3,85,017</b>	<b>3,38,196</b>
Motorcycles	2,92,172	3,55,625	-17.8	2,68,840	8.7	14,50,342	15,17,837	-4.4	38,04,016	10.5	22.3	3,36,239	2,90,068
Two-Wheelers	2,92,172	3,55,625	-17.8	2,68,840	8.7	14,50,342	15,17,837	-4.4	38,04,016	10.5	22.3	3,36,239	2,90,068
Three-Wheelers	51,652	45,970	12.4	50,907	1.5	2,40,636	1,72,074	39.8	5,82,078	20.0	9.1	48,778	48,127
Domestic	2,00,354	2,56,755	-22.0	1,79,263	11.8	10,21,173	7,92,547	28.8	25,68,539	21.9	17.8	2,21,052	2,04,235
Exports	1,43,470	1,44,840	-0.9	1,40,484	2.1	6,69,805	8,97,364	-25.4	18,17,554	-0.2	24.2	1,63,964	1,33,961
<b>Ashok Leyland</b>	<b>15,572</b>	<b>14,121</b>	<b>10.3</b>	<b>15,068</b>	<b>3.3</b>	<b>71,969</b>	<b>67,397</b>	<b>6.8</b>	<b>2,13,244</b>	<b>10.9</b>	<b>13.2</b>	<b>20,182</b>	<b>14,394</b>
M&HCV	9,887	8,379	18.0	9,571	3.3	45,623	41,514	9.9	1,40,973	13.6	15.4	13,621	9,125
LCV	5,685	5,742	-1.0	5,497	3.4	26,346	25,883	2	72,271	6.1	8.8	6,561	5,269
<b>TVS Motor</b>	<b>3,40,336</b>	<b>3,33,787</b>	<b>2.0</b>	<b>3,25,977</b>	<b>4.4</b>	<b>16,19,557</b>	<b>15,55,217</b>	<b>4.1</b>	<b>42,23,133</b>	<b>14.8</b>	<b>22.5</b>	<b>3,71,939</b>	<b>3,23,911</b>
Motorcycles	1,61,832	1,57,118	3.0	1,53,942	5.1	7,78,595	7,41,120	5.1	20,22,766	16.7	25.4	1,77,739	1,55,719
Scooters	1,36,490	1,21,866	12.0	1,35,247	0.9	6,24,729	5,53,755	12.8	15,70,016	17.7	21.2	1,35,041	1,24,946
Mopeds	27,416	36,555	-25.0	23,118	18.6	1,53,203	1,81,117	-15.4	4,54,815	2.0	14.0	43,087	30,641
Three-Wheelers	14,598	18,248	-20.0	13,670	6.8	63,030	79,225	-20.4	1,75,536	5.0	27.8	16,072	12,606
Domestic	2,49,214	2,40,676	3.5	2,36,764	5.3	12,11,808	10,11,953	19.7	31,18,083	19.3	19.0	2,72,325	2,42,362
Exports	91,122	93,111	-2.1	89,213	2.1	4,07,749	5,43,264	-24.9	11,05,051	3.6	33.2	99,615	81,550
<b>Royal Enfield</b>	<b>75,721</b>	<b>70,112</b>	<b>8.0</b>	<b>73,117</b>	<b>3.6</b>	<b>3,76,544</b>	<b>3,12,872</b>	<b>20.4</b>	<b>9,43,431</b>	<b>13.0</b>	<b>8.6</b>	<b>80,984</b>	<b>75,309</b>
<b>VECV</b>	<b>5,863</b>	<b>5,013</b>	<b>16.9</b>	<b>5,877</b>	<b>-0.2</b>	<b>31,311</b>	<b>28,464</b>	<b>10.0</b>	<b>90,004</b>	<b>13.0</b>	<b>14.7</b>	<b>8,385</b>	<b>6,262</b>
Domestic LMD	2,884	2,670	8.0	2,759	4.5	14,384	13,269	8.4	42,831	10.0	10.8	4,064	2,877
Domestic HD	1,463	1,045	40.0	1,369	6.9	7,494	6,073	23.4	21,430	13.0	8.1	1,991	1,499
Domestic Buses	897	815	10.0	1,183	-24.2	6,922	5,931	16.7	17,910	20.0	22.2	1,570	1,384
VTI	148	120	23.0	141	4.7	858	605	41.8	2,273	22.0	12.5	202	172
<b>Domestic</b>	<b>5,391</b>	<b>4,650</b>	<b>15.9</b>	<b>5,452</b>	<b>-1.1</b>	<b>29,657</b>	<b>25,878</b>	<b>14.6</b>	<b>84,444</b>	<b>13.1</b>	<b>12.2</b>	<b>7,827</b>	<b>5,931</b>
<b>Exports</b>	<b>472</b>	<b>363</b>	<b>30.0</b>	<b>425</b>	<b>11.0</b>	<b>1,654</b>	<b>2,586</b>	<b>-36.0</b>	<b>5,560</b>	<b>12.7</b>	<b>66.4</b>	<b>558</b>	<b>331</b>
<b>Escorts Kubota</b>	<b>6,017</b>	<b>6,111</b>	<b>-1.5</b>	<b>5,570</b>	<b>8.0</b>	<b>38,169</b>	<b>38,268</b>	<b>-0.3</b>	<b>1,08,455</b>	<b>5.0</b>	<b>8.1</b>	<b>10,041</b>	<b>7,634</b>
Domestic	5,467	5,308	3.0	5,161	5.9	35,854	34,620	3.6	1,01,764	6.8	8.7	9,416	7,171
Exports	550	803	-31.5	409	34.5	2,315	3,648	-37	6,691	-17	0.0	625	463

## Comparative valuations

	Rating	Mcap	CMP	TP	P/E (x)			EV/EBITDA (x)			PB (x)			FY25 Yield (%)		EPS CAGR (%) FY23-
Auto OEM's		(INR b)	(INR)	(INR)	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E	Div	FCF	25E
Bajaj Auto	Neutral	1,298	4,589	5,150	21.4	16.9	15.1	16.3	12.3	10.8	5.1	4.8	4.5	4.8	5.1	19.0
Hero MotoCorp	Buy	583	2,911	3,630	20.0	15.5	14.6	11.7	9.0	8.0	3.5	3.2	2.9	3.8	7.5	17.1
TVS Motor	Neutral	636	1,339	1,300	44.0	30.7	26.9	24.5	18.3	15.8	10.5	8.1	6.4	0.5	3.4	28.0
Eicher Motors	Neutral	914	3,342	3,600	31.4	23.4	20.4	26.3	20.8	17.8	6.1	5.2	4.4	1.5	4.8	24.1
Maruti Suzuki	Buy	2,872	9,509	11,150	35.7	24.9	22.7	21.9	16.0	13.6	4.8	4.2	3.7	1.5	2.7	24.8
M&M	Buy	1,821	1,520	1,725	23.4	17.6	16.4	15.7	11.4	9.9	2.1	1.8	1.5	1.5	5.7	19.7
Tata Motors	Buy	2,226	605	750	281.5	14.7	14.4	9.2	4.5	3.9	5.1	3.9	3.0	0.7	4.5	342.4
Ashok Leyland	Buy	546	186	210	41.2	19.5	15.3	19.0	11.1	9.6	7.4	6.5	5.1	1.1	6.9	64.1
Escorts	Neutral	374	3,052	2,450	59.5	33.5	29.1	45.3	25.4	19.9	4.9	4.1	3.6	0.3	3.0	42.9
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Bharat Forge	Buy	476	1,022	1,135	87.9	35.2	25.7	30.0	18.8	15.3	7.1	6.1	5.1	0.6	4.5	84.8
Exide Industries	Buy	220	259	290	24.4	20.5	16.9	14.0	12.0	10.1	2.0	1.8	1.7	1.2	6.7	20.1
Amara Raja	Neutral	107	624	665	14.6	13.0	11.6	7.8	6.9	6.2	2.0	1.8	1.6	2.4	6.4	12.1
BOSCH	Neutral	539	18,271	18,500	37.8	30.7	25.9	28.7	23.4	18.7	4.9	4.5	4.2	1.9	2.3	20.8
Endurance Tech	Buy	227	1,613	2,050	46.5	30.9	25.8	22.1	16.3	13.5	5.1	4.5	3.9	0.6	2.5	34.4
SAMIL	Buy	650	96	115	41.5	22.1	19.5	11.7	8.6	7.5	2.9	2.7	2.4	1.5	5.6	45.8
CIE Automotive	Buy	192	506	600	28.0	21.1	17.2	16.6	12.5	10.4	3.7	3.3	2.8	1.0	4.4	27.4
CEAT	Buy	93	2,300	3,000	44.3	14.5	12.1	11.6	6.6	5.6	2.7	2.3	2.0	0.8	9.5	91.5
Balkrishna Ind	Neutral	459	2,373	2,250	45.5	32.9	25.8	24.0	20.1	16.3	6.1	5.5	4.8	1.5	2.8	32.9
MRF	Sell	460	1,08,532	94,500	59.8	22.1	21.9	18.9	10.2	9.5	3.1	2.8	2.5	0.2	3.8	65.4
Apollo Tyres	Buy	247	389	500	22.7	13.6	12.0	8.8	6.0	5.3	1.5	1.4	1.2	1.4	10.1	37.5
Sona BLW	Neutral	343	586	600	86.3	65.6	50.4	49.7	37.7	29.8	15.0	12.9	11.0	0.6	1.0	30.9
Tube Investments	Buy	540	2,881	3,655	71.1	49.2	40.2	31.7	25.8	21.5	14.1	11.3	9.1	0.3	3.4	32.9
MSUMI	Buy	263	60	70	54.1	39.7	31.6	33.8	25.4	20.4	19.8	15.4	12.3	1.9	2.7	30.8
CRAFTSMAN	Buy	103	4,887	5,600	41.6	26.1	21.0	16.3	11.1	9.4	7.3	5.7	4.6	0.4	4.6	40.7

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

\*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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