Auto Q3FY24 Results Preview

AUTO Q3FY24 PREVIEW: ROBUST PERFORMANCE BY 2W OEMS; MANAGEMENT COMMENTARIES CRITICAL

Auto OEMs: We expect Auto OEMs under our coverage to post Revenue/EBITDA/PAT growth of 17%/34%/33% YoY in Q3FY24. This will be led by 1) Sales growth in the 2W segment (up ~19% YoY); Domestic PV segment (8-10% YoY); Domestic CV segment (4%), and Domestic 3W segment (23%); This, however, will be partly offset by a 4-6% YoY drop in the Domestic Tractor sales volumes, 2) Higher average selling price (ASP) on a YoY basis, led by price hikes undertaken by OEMs over the year and richer mix, 3) Correction in the RM prices over the high base of the last year as commodity prices are down on a YoY basis. This will lead to higher EBITDA margins (up ~172bps YoY).

On a sequential basis, we expect Auto OEMs under our coverage to register de-growth of 2%/7%/8% in Revenue/EBITDA/PAT and EBITDA margin contraction of ~72bps on a QoQ basis. This will be led by sequential growth of 4%/15% in 2W/Tractor domestic sales volumes in Q3FY24, which, however, will be partly offset by 6%/5%/7% de-growth in PV/CV/3W domestic sales volume.

Operating Performance of Auto OEMs: In Q3FY24, OEMs under our coverage are likely to report a YoY margin expansion of 172bps on an aggregate basis. On a QoQ basis, we, however, forecast margin contraction of ~72bps, mainly due to negative operating leverage and discounts to push sales (in PV) of slow-moving inventory (which was partly offset by premiumization trend for some OEMs). In **2Ws,** we estimate EBITDA margins to expand 238/233/100/33bps for **Hero/RE/TVS/Bajaj** on a YoY basis. EBITDA margins for **Maruti** are likely to improve 150bps YoY on price hikes, richer product mix, and RM tailwind over the last year (but decline 166bps QoQ on account of negative operating leverage, higher discounts in Arena brand vehicles, factory maintenance). For **Escorts Kubota,** we foresee margin improvement led by price increase in the Tractor segment and operating leverage in the ECE segment (being partly offset by lower tractor volumes on a YoY basis). EBITDA margins for **Ashok Leyland** are likely to improve by 214bps YoY due to higher ASP and RM tailwinds over the last one year. The company's EBITDA margins are expected to decline by 20bps on a QoQ basis due to negative operating leverage.

For Auto ancillaries under our coverage, we estimate Revenue/EBITDA/PAT to grow ~14%/22%/20% in Q3FY24 on a YoY basis. This will be led by the double-digit growth in the 2W sales volumes, high single-digit volume growth in the PV segment, and single-digit volume growth in the CV industry, being partly offset by volume decline in the Tractor industry. We expect revenue growth to remain flat on a QoQ basis (domestic sales of PV/CV/3W are down 6%/5%/7%, while 2W/Tractors are up 4%/15%). We expect EBITDA to grow by ~2% QoQ on account of the premiumisation trend in the 2W and PV, no incremental expense of raw materials, and cost control efforts across auto ancillaries (this will be partly offset by negative operating leverage for some auto ancillaries).

Operating Performance of Auto Ancillaries: Operational performance of the Auto ancillaries will be aided by a) Improved volumes for Auto Ancillaries that are specifically catering to the 2W industry and premium segment in the PV, and b) Automation and cost control efforts undertaken by the segment companies. Revenue and profitability are expected to gradually improve in the European business of on account of improved PV volumes. **Endurance Tech:** Revenue is expected to grow ~28%/6% YoY/QoQ owing to improvement in the overall 2W production volumes (especially Bajaj) and product premiumization, and an increase in European subsidiary revenues INR terms) due to an improvement in PV production volume (after a seasonally weak quarter). **Automotive Axles Ltd:** We expect revenues to decline 12%/1% YoY/QoQ due to commodity correction YoY and a decline in the sales volume of the CV segment (Ashok Leyland). **Minda Corp**: Revenue is expected to improve by 1.4% QoQ, led by growth in 2W, PV, and premiumisation trends. For **Uno Minda,** we expect revenue to decline by ~6.6% on a QoQ basis due to lower production volumes in the PV industry and lower ASPs in the LMT division. **Sansera Engineering**: Revenue is expected to decline by ~1% on a QoQ basis on account of lower business from key OEMs in the EU, which will be partly offset by higher revenue from the Indian 2W and Aerospace division.

Input Cost: In Q3FY24, average steel HRC prices (ex-Mumbai traders market)/AL/Zn were up by 1-2% QoQ, while Platinum/Cu/Lead/Palladium declined by 1%/2%/1%/8% on a QoQ basis. The slight uptick in the commodity prices has largely been mitigated by OEMs by price adjustments and going ahead we don't foresee incremental tailwinds from commodity complex.

Outlook: Revival in rural demand and exports in Q4FY24 and beyond will be critical for Hero, Bajaj, TVS, and RE. PV sales are expected to moderate on a high base. While new product launches from certain OEMs in the SUV segment by mid-FY25 will drive growth, sluggish demand may continue to persist for entry-level vehicles. For CVs, a longish cycle is expected by various OEMs based on increased spending on infrastructure by the government; however, we factor in mid-single digit growth on the prevailing high base. Tractor volumes may see de-growth in FY24E on account of the high base of FY23 as well as erratic monsoons. Keeping this in view, we remain selective for OEMs under our coverage. **We prefer TVS and Hero Motocorp in the OEMs and Endurance Tech, CIE Automotive, and Sansera Engineering in the Auto Ancillary space.**

Our Top Picks over the Long-term Horizon with Key Rationale:

TVS Motors: Focus on premium bikes and EV scooters to put the company at an advantage over its peers.

Hero Motocorp: Strategic investment in Ather Energy, expansion of the EV dealership network, new launches in the mid-weight motorcycle segment, and anticipated rural recovery.

Sansera Engineering: Strong order book growth in the Non-ICE segments, improved export outlook, improving margin trends, and company's capacity expansion plans.

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AUTO OEMs

Year-end March(Rs Cr)	Q3FY24	Q2FY24	QoQ(%)	Q3FY23	YoY(%)	Result expectations
Ashok Leyland(standalone)						
Volumes (in units)	47,241	49,846	-5.2%	47,562	-0.7%	➔ Revenues are expected to increase by 1% YoY, led by an increase in the ASP and a higher share of defence business; partly offset by 1% YoY volume decline and a lower share of the MHCV segment in the mix. ➔ EBITDA margins are likely to improve 214bps YoY on higher ASP and RM tailwinds over the last one year, but expected to decline by 20bps on a QoQ basis on account of negative operating leverage.
Revenues	9,148	9,638	-5.1%	9,030	1.3%	
EBITDA	1,004	1,080	-7.0%	797	25.9%	
EBITDA margin (%)	11.0	11.2		8.8		
PAT	519	561	-7.5%	361	43.5%	
EPS (Rs)	1.8	2.0	-10.1%	1.2	45.5%	
Escorts Kubota (Cons)	**Q3FY24**	**Q2FY24**	**QoQ(%)**	**Q3FY23**	**YoY(%)**	➔ Revenues to increase by 5% YoY led by (1) Increase in railway segment revenues, (2) Increase in construction equipment segment revenues driven by 49% YoY higher volumes, being partly offset by lower tractor segment revenues due to 7% YoY decline in tractor volumes. ➔ EBITDA margins are likely to improve YoY/QoQ on account of (1) Price increase in the Tractor segment. (2) Operating leverage in ECE, partly offset by lower tractor volumes on a YoY basis.
Revenues	2,413	2,059	17.2%	2,291	5.3%	
EBITDA	310	261	19.0%	191	62.2%	
EBITDA margin (%)	12.9	12.7		8.4		
PAT	280	223	25.6%	181	55.1%	
EPS (Rs)	25.9	20.6	25.6%	16.7	55.0%	

AUTO OEMs (Cont'd)

Year-end March (Rs Cr)	Q3FY24	Q2FY24	QoQ(%)	Q3FY23	YoY(%)
Maruti Suzuki(standalone)					
Volumes (in units)	5,01,207	5,52,055	-9.2%	4,65,911	7.6%
Revenues	33,677	37,062	-9.1%	29,044	15.9%
EBITDA	3,788	4,784	-20.8%	2,833	33.7%
EBITDA margin (%)	11.2	12.9		9.8	
PAT	2,859	3,717	-23.1%	2,351	21.6%
EPS (Rs)	90.9	123.0	-26.1%	77.8	16.8%

Result expectations

- Total units sold increased by 7.6% YoY. Growth was led by higher sales of the SUV segment (up 60% YoY) and exports (up 16% YoY).
- We expect total revenue to increase by ~16% YoY due to higher overall unit sales and, a better product mix – Higher SUV and export volumes being partly offset by higher discounts largely in Arena Brand cars.
- EBITDA to outpace topline growth YoY on account of richer product mix (higher share of SUV), price hikes taken during the period, and RM cost tailwinds.
- EBITDA margins are likely to improve 150bps YoY on price hikes, richer product mix and RM tailwind over the last year (but decline 166bps QoQ on account of negative operating leverage, higher discounts in Arena brand vehicles, and factory maintenance.)

TVS Motors(standalone)	Q3FY24	Q2FY24	QoQ(%)	Q3FY23	YoY(%)
Volumes (in units)	11,00,843	10,74,378	2.5%	8,79,423	25.2%
Revenues	8,357	8,145	2.6%	6,545	27.7%
EBITDA	927	900	3.0%	659	40.6%
EBITDA margin (%)	11.1	11.0		10.1	
PAT	541	536	0.9%	353	53.4%
EPS (Rs)	11.3	9.8	14.7%	8.6	31.7%

- Revenues are expected to increase by ~28% YoY in Q3FY24, led by (1) 25% YoY increase in volumes and (2) 2% YoY increase in ASPs, led by price hikes undertaken, a higher mix of EV scooters, being partly offset by a lower mix of the export segment.
- EBITDA margins are expected to increase by ~100bps/10bps YoY/QoQ led by higher operating leverage, RM tailwinds partly offset by margin dilutive higher mix of EV scooters.

AUTO OEMs (Cont'd)

Year-end March (Rs Cr)	Q3FY24	Q2FY24	QoQ(%)	Q3FY23	YoY(%)
Hero MotoCorp Ltd(standalone)					
Volumes (in units)	14,59,932	14,16,526	3.1%	12,39,693	17.8%
Revenues	9,666	9,445	2.3%	8,031	20.4%
EBITDA	1,344	1,328	1.2%	924	45.4%
EBITDA margin (%)	13.9	14.1		11.5	
PAT	1,039	1,054	-1.5%	711	46.1%
EPS (Rs)	52.0	52.7	-1.5%	35.5	46.3%

Result expectations

- Revenue is expected to increase by ~20%/2% YoY/QoQ in Q3FY24 led by an increase in ASPs by 2% YoY due to price hikes taken during the year, and an increase in total wholesale volume by ~18%/3% YoY/QoQ (robust festive demand and recovery in entry-level motorcycle).
- EBITDA margin is likely to improve 238bps YoY; however is expected to decline by 20bps QoQ, mainly driven by (1) weaker product mix(higher sale of entry-level mc and EVs), (2) higher discounts post-festive season, partly offset by operating leverage benefits, price hikes and lower other expenses.

Bajaj Auto Ltd(standalone)	Q3FY24	Q2FY24	QoQ(%)	Q3FY23	YoY(%)
Volumes (in units)	12,00,997	10,53,953	14.0%	9,83,276	22.1%
Revenues	12,258	10,777	13.7%	9,315	31.6%
EBITDA	2,379	2,133	11.5%	1,777	33.9%
EBITDA margin (%)	19.4	19.8		19.1	
PAT	1,998	1,836	8.8%	1,491	34.0%
EPS (Rs)	70.6	64.9	8.8%	52.7	34.0%

- We expect total revenues to increase by ~32% YoY, led by (1) 22% YoY increase in volumes and (2) 8-9% YoY increase in ASPs on account of a higher mix of the 3W, premium 2W segments expansion and price increases.
- EBITDA margin is expected to improve by ~33bps on a YoY basis(decline 38bps QoQ) in Q3FY24 led by (1) Price increases (2) Operating leverage, partly offset by lower mix of 3W, higher mix of the EV 2W and entry-level motorcycle segments.

AUTO OEMs (Cont'd)

Year-end March (Rs Cr)	Q3FY24	Q2FY24	QoQ(%)	Q3FY23	YoY(%)
Eicher Motors Ltd (standalone)					
Volumes (in units)	2,28,073	2,29,280	-0.5%	2,21,401	3.0%
Revenues	3,933	3,931	0.1%	3,590	9.6%
EBITDA	1,031	1,097	-6.1%	857	20.3%
EBITDA margin (%)	26.2	27.9		23.9	
PAT	898	939	-4.4%	681	31.9%
EPS (Rs)	32.8	34.3	-4.4%	24.9	31.7%

Result expectations

- Total RE revenue expected to increase by 9.6% YoY in Q3FY24, led by a 3% YoY increase in volumes and a 5% YoY increase in ASPs due to price increases taken in the last one year, partly offset by a lower mix of the export segment.
- EBITDA to increase by ~20% YoY led by increased domestic volumes partially offset by lower ASP on account of a higher sales mix of 350cc mc and lower export volume; and new product launch expenses.
- EBITDA margins are to improve by 233bps YoY; however they are expected to decline by 172bps QoQ in Q3FY24, due to the reversal of finished goods inventory, lower export mix and higher advertisement spends due to the launch of Himalayan 500.

AUTO ANCILLARY (Consolidated)

Year-end March (Rs Cr)	Q3FY24	Q2FY24	QoQ(%)	Q3FY23	YoY(%)	Result expectations
Automotive Axles						
Revenues	577	584	-1.3%	656	-12.0%	➔ We expect revenues to marginally decline by 1% QoQ on account of decline in CV segment sales (Ashok Leyland) ➔ EBITDA margins are expected to decline by ~10bps QoQ, led by negative operating leverage.
EBITDA	65	66	-2.1%	78	-16.9%	
EBITDA margin (%)	11.2	11.3		11.9		
PAT	43	45	-5.3%	51	-15.7%	
EPS (Rs)	28.3	29.8	-5.3%	33.5	-15.7%	
Endurance Tech	**Q3FY24**	**Q2FY24**	**QoQ(%)**	**Q3FY23**	**YoY(%)**	
Revenues	2,690	2,545	5.7%	2,095	28.4%	➔ Revenue is expected to grow ~28%/6% YoY/QoQ owing to improvement in overall 2W production volumes (especially Bajaj) and product premiumization, and an increase in European subsidiary revenues (in INR terms) due to improvement in PV production volume (after a seasonally weak quarter). ➔ We estimate EBITDA margin to improve by ~80bps QoQ on account of operating leverage benefits.
EBITDA	357	318	12.3%	240	49.2%	
EBITDA margin (%)	13.3	12.5		11.4		
PAT	173	155	11.8%	108	59.7%	
EPS (Rs)	12.3	11.0	11.8%	7.7	59.7%	

AUTO ANCILLARY (Cont'd)

Year-end March (Rs Cr)	Q3FY24	Q2FY24	QoQ(%)	Q3FY23	YoY(%)	Result expectations
Minda Corp						
Revenues	1,212	1,196	1.4%	1,068	13.5%	→ Revenue is expected to improve by 1.4% QoQ led by growth in 2W, PV, and CV volumes. → EBITDA to improve by 3% QoQ and EBITDA margins to slightly improve by ~15bps QoQ on the back of richer product mix and premiumization trend.
EBITDA	135	131	3.0%	114	18.5%	
EBITDA margin (%)	11.2	11.0	0.17	10.7		
PAT	59	59	1.1%	52	13.7%	
EPS (Rs)	2.5	2.5	1.1%	2.2	13.7%	
Steel Strip Wheels (SSWL)	**Q3FY24**	**Q2FY24**	**QoQ(%)**	**Q3FY23**	**YoY(%)**	
Revenues	1,091	1,134	-3.8%	938	16.2%	→ Revenue to degrow 4% QoQ led by lower overall volumes and decline in ASP due to poor product mix (lower mix of alloy wheels and tractors). → EBITDA margin is expected to marginally decline by 10bps QoQ due to poor product mix and negative operating leverage. → We expect the effective tax rate to be at 33% in Q3 (33.6% in Q2FY24)
EBITDA	118	124	-4.8%	108	9.8%	
EBITDA margin (%)	10.9	11.0		11.5		
PAT	47	52	-9.1%	44	8.4%	
EPS (Rs)	3.0	3.3	-9.1%	2.8	8.4%	

AUTO ANCILLARY (Cont'd)

Year-end March (Rs Cr)	Q3FY24	Q2FY24	QoQ (%)	Q3FY23	YoY(%)	Result expectations
UNO Minda Ltd						
Revenues	3,381	3,621	-6.6%	2,915	16.0%	➔ We expect revenue to decline by ~6.6% QoQ basis due to lower PV industry production volumes and lower ASPs in LMT division. ➔ We expect EBITDA to decline by ~7.4% QoQ led by topline degrowth. ➔ We expect EBITDA margin to decline by 10bps QoQ in Q3FY24 on account of negative operating leverage and slow ramp-up of new facilities.
EBITDA	372	402	-7.4%	338	9.9%	
EBITDA margin (%)	11.0	11.1		11.6		
PAT	206	225	-8.4%	162	27.2%	
EPS (Rs)	3.6	3.9	-8.4%	2.8	26.4%	
Year-end March (Rs Cr)	**Q3FY24**	**Q2FY24**	**QoQ (%)**	**Q3FY23**	**YoY(%)**	
Sansera Engineering Ltd						➔ We expect revenue to decline by ~1% on a QoQ basis on account of lower business from key OEMs in the EU partly offset by higher revenue from Indian 2W and Aerospace division. ➔ We expect EBITDA to increase by ~2.3% QoQ led by growth in 2W industry volumes(Bajaj and TVS) leading to operating leverage and richer product mix (aerospace division). ➔ We expect the EBITDA margin to improve by ~50bps QoQ in Q3FY24 on account of operating leverage and richer product mix partly offset by slower than expected EU production ramp-up.
Revenues	690	693	-0.5%	557	23.8%	
EBITDA	120	118	2.3%	87	39.0%	
EBITDA margin (%)	17.5	17.0		15.6		
PAT	49	48	2.7%	31	56.2%	
EPS (Rs)	9.1	8.8	3.7%	5.9	54.9%	
Year-end Dec (Rs Cr)	**Q4CY23**	**Q3CY23**	**QoQ (%)**	**Q4CY22**	**YoY (%)**	
CIE Automotive Ltd						
Revenues	2,353	2,279	3.2%	2,247	4.7%	➔ Revenue is expected to increase by 3% QoQ in Q4CY23, led by an increase in EU PV production volumes and gradual ramp-up in Metalcastello business, and an uptick in the Indian 2W industry being partly offset by lower PV production volumes. ➔ Consolidated EBITDA margin is expected to increase by 50bps QoQ to 15.7%, mainly due to operating leverage benefits.
EBITDA	370	345	7.3%	292	26.7%	
EBITDA margin (%)	15.7	15.2		13.0		
PAT	194	187	4.0%	195	-0.3%	
EPS (Rs)	5.1	4.9	4.0%	4.4	16.8%	

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