

October 6, 2020

Wheels turning; smart recovery under way...

The auto industry recorded a credible recovery in Q2FY21, with manufacturing & distribution activities sustaining an upswing in each successive month during the period. Rural and semi-urban India continued to lead the charge amid healthy sentiment and cash flows courtesy lower Covid incidence, normal monsoon progress, strong Kharif sowing and ongoing policy support for farm incomes and rural infrastructure. The revival was most visible in discretionary pockets i.e. 2-W, tractors and PVs, with CVs (particularly buses) and 3-W still lagging the overall industry. A strong showing in August and September, in particular, was partly due to an element of inventory build-up ahead of the upcoming festive period.

Volume prints improve considerably; input prices supportive

Among key OEMs, tractor players M&M, Escorts remained outperformers by recording 29.8% YoY, 23.8% YoY volume increases, respectively. In 2-W, market leader Hero MotoCorp registered 7.3% rise while Bajaj Auto, Eicher Motors' Royal Enfield volumes were down 2%, 9.6% respectively. PV bellwether Maruti Suzuki posted healthy 16.2% YoY jump while in the CV space, Ashok Leyland's volumes were down 33% YoY. M&M (automotive) volumes were down 23% YoY while Tata Motors (standalone) volumes rose 5%. Commodity prices rose sequentially but lagged pass through from Q1FY21 is expected to have aided coverage companies.

Better operating leverage underpins strong sequential uptick

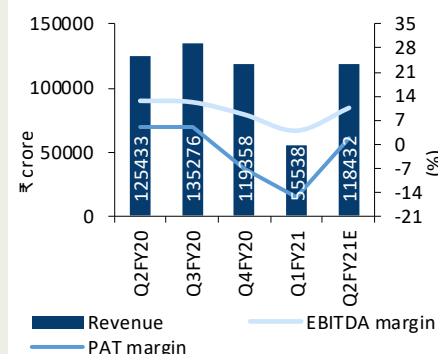
Our coverage universe is expected to see ~6% YoY topline fall to ₹ 1.18 lakh crore, with margins seen falling ~210 bps YoY to 10.5%, profitability slumping ~67% YoY to ₹ 2,021 crore. Industry volumes (ex-CV) are expected to have risen ~7% YoY in quarter, with dip in universe revenues largely due to Tata Motors & the ancillary pack. QoQ improvement, however, is expected to be substantial across all parameters. Ex-Tata Motors, our coverage universe is seen posting 4% YoY revenue increase with EBITDA margin of 12.3%, PAT of ₹ 4,913 crore. OEM pack is expected to outperform ancillaries courtesy greater economies of scale, better pricing power. Despite continued strength in replacement channel, relative increase in OEM production in quarter is seen crimping on incremental margin performance of tyre, battery makers. We expect OEM (ex-Tata Motors) topline growth at 6% YoY with margins at 12%. For ancillaries, topline de-growth is expected at 7% YoY with margins at 14.4%. YoY PAT comparison across companies would be impacted by abnormally low effective tax rates in base quarter due to transition to new tax rate regime.

Exhibit 1: Estimates for Q2FY21E (₹ crore)

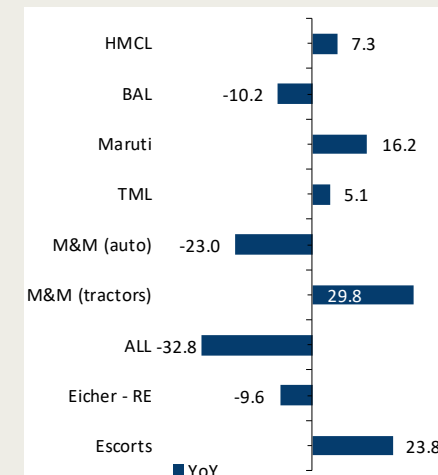
	Revenue Change (%)			EBITDA Change (%)			PAT Change (%)		
	Q2FY21E	YoY	QoQ	Q2FY21E	YoY	QoQ	Q2FY21E	YoY	QoQ
Apollo Tyres	3,867	-3%	35%	535	24%	125%	85	2%	LP
Ashok Leyland	2,569	-35%	295%	-138	PL	58%	-273	-799%	30%
Bajaj Auto	7,192	-7%	134%	1,231	-4%	201%	1,178	-16%	123%
Bharat Forge	1,032	-18%	142%	189	-41%	LP	78	-68%	LP
Eicher Motors	2,073	-5%	153%	414	-23%	10805%	302	-47%	LP
Escorts	1,514	14%	43%	197	55%	65%	160	53%	77%
Exide Industries	2,334	-11%	51%	350	-5%	136%	195	-18%	343%
Hero MotoCorp	9,609	27%	223%	1,246	13%	1052%	892	-3%	1355%
M&M	11,458	3%	105%	1,517	9%	176%	855	-29%	664%
Maruti Suzuki	19,327	14%	371%	1,995	24%	LP	1,387	2%	LP
Minda Industries	1,378	1%	230%	165	2%	LP	53	3%	LP
Tata Motors	56,078	-14%	75%	4,726	-43%	173%	-2,892	1438%	66%
Total	1,18,432	-6%	113%	12,426	-21%	511%	2,021	-67%	LP

Source: Company, ICICI Direct Research

Topline & Profitability (Coverage Universe)



Key players volume growth for Q2FY21 (%)



Average commodity price movement (₹/kg)

	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)
Steel	44	42	6.8	41	8.9
Aluminium	145	143	1.4	138	5.1
Rubber	131	142	-7.7	118	11.0
Plastics	72	73	-1.4	71	1.4
Lead	141	154	-8.6	129	9.6

Average currency movement against rupee

	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)
USD/INR	74.4	75.8	-1.9	75.9	-2.0
EUR/INR	87.0	84.3	3.3	83.6	4.1
GBP/INR	96.1	93.4	2.9	94.2	2.0
JPY/INR	0.7	0.7	-0.6	0.7	-0.7

Top Picks

Mahindra & Mahindra
Escorts

Research Analyst

Shashank Kanodia, CFA
shashank.kanodia@icicisecurities.com

Jaimin Desai
jaimin.desai@icicisecurities.com

Exhibit 2: Company Specific view - OEMs

Company	Remarks
Ashok Leyland (ALL)	CV maker Ashok Leyland's fortunes are expected to have improved substantially from the previous quarter. However, overall weakness is still seen persisting for Q2FY21E. Total volumes for the quarter were at 19,444 units, down 33% YoY. Product mix remained adverse, with MHCV: LCV ratio at ~40:60 vs. ~58:42 YoY. Consequent standalone net sales for the quarter are seen at ₹ 2,569 crore, down 34.6% YoY. Negative operating leverage is expected to have resulted in loss at EBITDA level of ₹ 138 crore (vs. loss of ₹ 333 crore QoQ) , with loss after tax expected at ₹ 273 crore (vs. loss of ₹ 389 crore QoQ)
Bajaj Auto (BAL)	Bajaj Auto is expected to post relatively muted performance in Q2FY21E, largely led by product mix deterioration and an element of rupee appreciation. Total volumes were at 10.5 lakh units, down 10.2% YoY (2-W down 2%, 3-W down 53%; share of 3-W in total volumes at 8.4% vs. 16.1% YoY; exports at 46% of total volumes, unchanged YoY). Net sales are expected at ₹ 7,192 crore, down 6.7% YoY. EBITDA & EBITDA margins for the quarter are seen at ₹ 1,231 crore and 17.1%, respectively (up 380 bps QoQ, 50 bps YoY). Consequent PAT is expected at ₹ 1,178 crore, down 16% YoY
Eicher Motors (EML)	Eicher Motors is expected to report subdued Q2FY21E results. RE sales volume for the quarter were at 1.5 lakh units, down 9.6% YoY, with VECV sales volumes down 28.3% YoY to 8,167 units. Consequent net sales are anticipated at ₹ 2,072 crore, a decline of 5.5% YoY. ASPs are seen improving slightly amid marginal improvement in product mix (>350 cc volumes at ~9% of total vs. ~8% QoQ). EBITDA is expected at ₹ 414 crore with corresponding margins at 20% (vs. 24.7% YoY), with ensuing PAT at ₹ 302 crore vs. 573 crore YoY. Share of losses from VECV segment is expected at ₹ 27 crore (vs. ₹ 8.3 crore profit in Q2FY20)
Escorts	Escorts is expected to deliver an operationally healthy Q2FY21E performance on the back of sustained upswing in domestic tractor industry volumes in the quarter (company volumes up 23.8% YoY to 24,441 units). Recovery in construction equipment, railway equipment segments, however, is seen being some way away (expect revenue fall of 33%, 30% respectively). Net sales for the quarter is expected at ₹ 1,514 crore, up 14% YoY. EBITDA in Q2FY21E is expected at ₹ 197 crore with corresponding EBITDA margins at 13% (up 170 bps QoQ). Resultant PAT is expected at ₹ 160 crore, up 53.2% YoY. Spike in profitability YoY is in part due to lower base of last year
Hero Motocorp (HMCL)	Hero MotoCorp is expected to report decent set of Q2FY21E results tracking ~7.3% rise in volumes to 18.1 lakh units. Net sales for the quarter are expected at ₹ 9,609 crore, up 26.9% YoY (includes impact of sharp jump in realisations due to BS-VI transition). ASPs for the quarter are seen remaining largely flat QoQ at ₹ 52,951/unit. EBITDA is expected at ₹ 1,246 crore with corresponding EBITDA margins at 13% (down 150 bps YoY). We expect marginal dip in PAT on YoY basis to ₹ 892 crore
M&M	M&M is expected to report steady Q2FY21E numbers. Automobile volumes fell 23% YoY to 92,024 units while tractor volume grew 29.8% YoY to 93,246 units. Consequent standalone net sales are expected at ₹ 11,458 crore, up 3% YoY. We expect the company to post a sharp QoQ EBITDA improvement on the back of higher share of sales from tractors and overall pick-up in automotive volumes. Consequent EBITDA, EBITDA margins are seen at ₹ 1,516 crore, 13.2%, respectively (up 340 bps QoQ, up 60 bps YoY). Ensuing PAT is expected at ₹ 855 crore, down 29% YoY. YoY decline in PAT is primarily tracking higher other income in the base quarter
Maruti Suzuki (MSIL)	Maruti Suzuki is expected to post a healthy Q2FY21E performance on the back of strong volume offtake during the quarter. Total dispatches for the period were at 3.93 lakh units, up 16.2% YoY (domestic up 18.6%, exports down 13%). ASPs are expected to remain largely unchanged sequentially amid stable product mix (UV at ~16-17% of total volumes) and greater absorption of BS-VI pricing in the market. Total operating income is expected at ₹ 19,327 crore, up 13.8% YoY. We expect the company to post EBITDA of ₹ 1,995 crore (against previous quarter's loss of ₹ 863 crore), with corresponding EBITDA margins of 10.3%. Consequent PAT is seen at ₹ 1,387 crore
Tata Motors (TML)	Tata Motors is expected to report muted Q2FY21E numbers in YoY terms, although sequential improvement is expected to be substantial. Standalone sales volume (MHCV + PV) rose 5% YoY to 1.1 lakh units while JLR volumes are expected at ~1 lakh units, down 25% YoY - with Jaguar to Land Rover mix at 23:77. Consequent consolidated net sales is expected at ₹ 56,078 crore, down 14.3% YoY. EBITDA in Q2FY21E is expected at ₹ 4,726 crore with corresponding EBITDA margins at 8.4% (up 300 bps QoQ, down 420 bps YoY). Consolidated loss after tax is expected at ₹ 2,892 crore against base quarter's loss of ₹ 188 crore

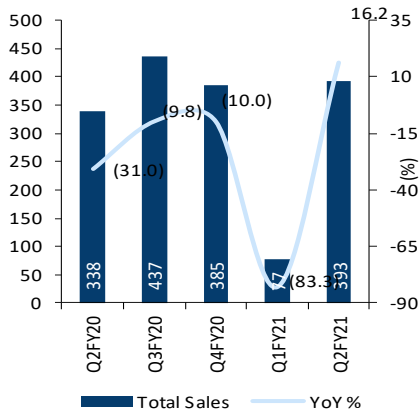
Source: Company, ICICI Direct Research

Exhibit 3: Company Specific views – Ancillaries

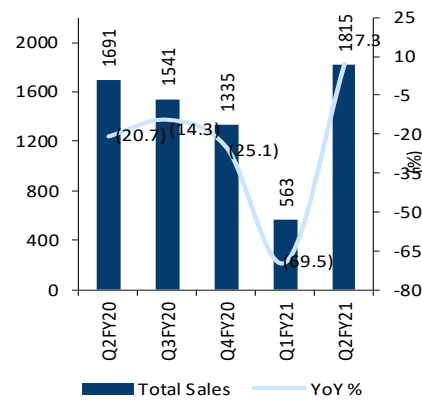
Company	Remarks
Minda Industries (MIL)	Minda Industries is expected to report steady performance in Q2FY21E primarily tracking growth at OEM level in both its core segments i.e. 2-W & PV. Net sales in Q2FY21E is expected at ₹ 1,378 crore; flat YoY. Marginal revenue decline in LMT division (alloy wheel segment) due to temporary down-trading is expected to be counteracted by consolidation of Delvis numbers (acquisition made in October 2019). EBITDA in Q2FY21E is expected at ₹ 165 crore with corresponding EBITDA margins at 12.0%, flat YoY. PAT in Q2FY21E is expected at ₹ 53 crore, up 2.5% YoY
Apollo Tyres (ATL)	Apollo Tyres is expected to report a healthy performance primarily tracking robust replacement market demand both in India, Europe amid benign raw material prices. On volumes front, we expect Indian operations to post a volume fall of 5% YoY while Europe decline is expected at ~10% YoY. On a consolidated basis, total operating income in Q2FY21E is expected at ₹ 3,867 crore; down 3% YoY. EBITDA in Q2FY21E is expected at ₹ 535 crore with corresponding EBITDA margins at 13.8%, almost at a four year high – on the back of lagged pass through of softer rubber prices and higher share of aftermarket sales. PAT in Q2FY21E is expected at ₹ 85 crore, up 2% YoY
Bharat Forge (BFL)	Bharat Forge is expected to report a muted performance tracking weakness in CV segment at both its domestic as well as export markets on a YoY basis. QoQ prints, however, may see a meaningful improvement. Key monitorable for Q2FY21E would be the company's margin profile consequent to its various cost cutting initiatives. On a standalone basis, total operating income in Q2FY21E is expected at ₹ 1,032 crore; down 18% YoY. EBITDA in Q2FY21E is expected at ₹ 189 crore with corresponding EBITDA margins at 18.3%. PAT in Q2FY21E is expected at ₹ 78 crore, down 68% YoY primarily tracking decline in sales & high EBITDA margins (25.4%) in base quarter
Exide Industries (EIL)	Exide Industries is expected to report a steady performance in Q2FY21E primarily tracking a pick-up in wholesale volume prints at the OEM level during the quarter and robust aftermarket product demand. Net sales in Q2FY21E are expected at ₹ 2,334 crore; down 10.6% YoY. Topline decline is largely driven by drop in ASPs tracking a decline in lead prices, as volume growth in Q2FY21E is estimated at ~11% on YoY basis. EBITDA in Q2FY21E is expected at ₹ 350 crore with corresponding EBITDA margins at 15.0%, up 90 bps YoY. PAT in Q2FY21E is expected at ₹ 195 crore, down 18% YoY amidst low tax rate in base quarter

Source: Company, ICICI Direct Research

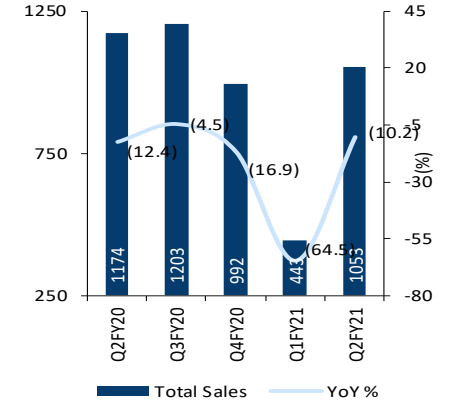
Maruti Suzuki's sales performance ('000 units)



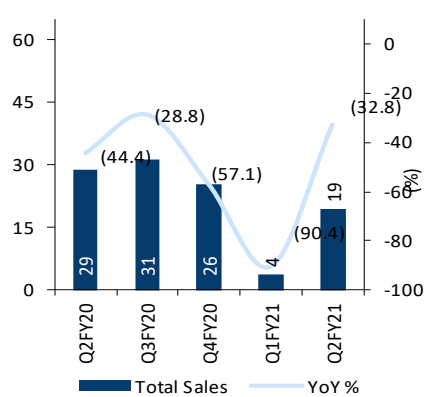
Hero Moto's sales performance ('000 units)



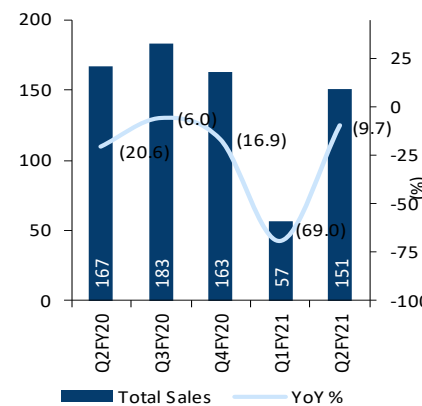
Bajaj Auto's sales performance ('000 units)



Ashok Leyland's sales performance ('000 units)



Eicher Motors' sales performance ('000 units)



M&M's sales performance ('000 units)

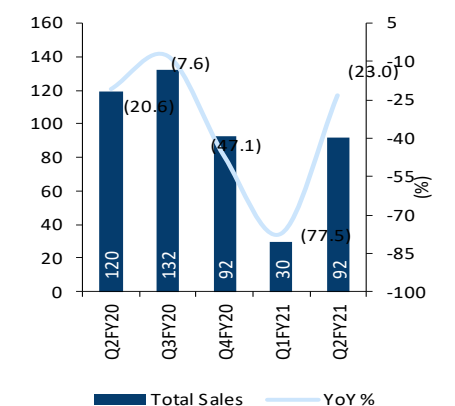


Exhibit 4: ICICI Direct coverage universe (Auto & Auto Ancillary)

Sector / Company	CMP	TP	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	(₹)			FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Apollo Tyre (APOTYR)	135	120	Hold	7,723	8.3	4.9	8.9	16.2	27.5	15.2	7.2	6.2	5.3	4.7	4.7	6.6	4.8	2.5	4.9
Ashok Leyland (ASHLEY)	75	90	Buy	21,953	0.8	0.3	2.5	91.9	282.5	30.3	20.4	25.4	13.1	4.5	2.3	9.2	4.7	1.1	9.4
Bajaj Auto (BAAUTO)	2,985	3,210	Hold	86,377	176.2	137.0	173.7	16.9	21.8	17.2	13.6	16.4	12.0	23.9	23.5	26.7	25.6	17.9	20.2
Bharat Forge (BHAFOR)	465	415	Hold	21,649	7.5	3.5	13.7	62.0	133.4	34.0	21.8	29.4	16.3	5.8	2.2	7.9	7.8	3.0	11.1
Eicher Motors (EICMOT)	2,190	2,470	Buy	59,699	67.0	46.6	71.3	32.7	47.0	30.7	24.3	30.5	20.9	17.3	11.5	15.4	18.3	11.6	15.4
Escorts (ESCORT)	1,250	1,375	Buy	15,323	39.6	46.1	54.5	31.6	27.1	22.9	21.3	18.2	15.3	18.9	15.0	15.2	14.2	11.2	11.8
Exide Industries (EXIIND)	165	180	Buy	14,025	9.7	6.3	8.9	11.8	18.0	12.9	10.1	12.5	9.7	15.7	10.3	13.5	13.4	8.2	10.7
Hero Moto (HERHON)	3,140	3,235	Hold	62,706	181.9	118.0	161.8	17.3	26.6	19.4	14.2	17.2	12.4	21.3	15.4	20.3	22.7	15.4	19.1
M&M (MAHMAH)	625	760	Buy	77,700	11.2	29.1	40.0	56.0	21.5	15.6	12.8	13.2	9.9	12.9	10.8	13.8	6.4	9.2	11.6
Maruti Suzuki (MARUTI)	6,900	5,700	Reduce	2,08,435	187.1	124.9	203.4	36.9	55.2	33.9	23.7	32.4	19.9	7.4	3.5	8.2	11.7	7.4	11.1
Minda Industries (MININD)	350	370	Hold	9,177	5.9	2.8	10.0	59.2	124.3	34.9	16.4	19.0	12.3	10.2	6.3	12.7	10.3	4.0	13.0
Tata Motors (TATMOT)	145	160	Buy	52,167	-33.3	-25.0	7.0	NM	NM	20.6	5.3	5.5	3.7	1.3	1.1	6.7	-18.7	-16.8	4.5

Source: Bloomberg, ICICI Direct Research

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Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, AkruTI Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com



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