

January 8, 2021

## Smart performance improvement on the cards...

A healthy festive period and elements of pent-up demand, channel restocking led the auto industry to remain firmly on the recovery path in Q3FY21. PV, motorcycle and tractor segments continued to be buoyant, with a pick-up in truck and scooter sales a welcome development. While topline performance is consequently expected to be strong across our coverage universe, margins are seen contracting sequentially on the back of a sharp rise in key raw materials like metals, rubber & other crude derivatives. We expect I-direct coverage universe (Ex-Tata Motors) to report topline growth of 15.9% with EBITDA margins at 11.8% (down 150 bps QoQ) and PAT growth of 17.8% YoY. Including Tata Motors, coverage universe topline growth is seen 8% YoY to ₹ 1.65 lakh crore with corresponding margins at 11.6% (down 140 bps QoQ) and PAT de-growth of 10.7% YoY to ₹ 6,679 crore. OEM pack is seen leading the recovery.

### OEMs seen leading recovery; broad-based strength expected

Among OEMs, 2-W and PV players recorded encouraging offtake (HMCL +19.8%, MSIL +13.4%, ALL +7.1%, M&M tractor + 20.4%, Escorts +25.7% being the noteworthy ones), with the exception of M&M's automotive division (-7.6%). Other 2-W players BAL, EIM posted high single digit growth, with BAL performance being rescued by excellent showing in exports. A sharp uptick on volume front is seen being accompanied by flattish to mildly negative realisations sequentially while margins are expected to feel some of the impact of rise in input costs. Nevertheless, profitability is expected to have strengthened, with total topline and bottomline growth for the OEM pack at 18.6% YoY & 19.3% YoY, respectively (ex-Tata Motors) amid ~160 bps decline in margin profile.

### Ancillaries - delivery to be more stock specific

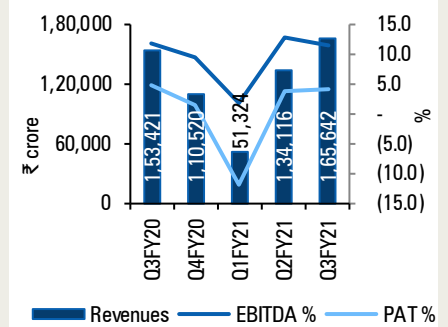
In ancillaries, companies with high exposure to replacement channel (tyre & battery makers) are thought to have outperformed on the topline front. Companies with global exposure (Bharat Forge, Motherson Sumi) are expected to deliver relatively muted performance. Minda Industries and Balkrishna Industries are seen having done well courtesy a pick-up in demand from base industries (domestic 2-W, 4-W & global agri respectively), accompanied by comparatively healthy margin prints. Total topline and bottomline growth for the auto ancillary pack is expected at 10.1% YoY & 10.6% YoY, respectively, amid ~140 decline in margin profile.

Exhibit 1: Estimates for Q3FY21E (₹ crore)

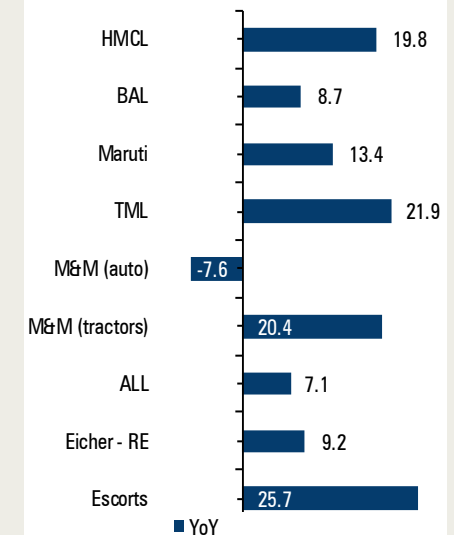
	Revenue Change (%)			EBITDA Change (%)			PAT Change (%)		
	Q3FY21E	YoY	QoQ	Q3FY21E	YoY	QoQ	Q3FY21E	YoY	QoQ
Apollo Tyres	5,024	14.2	17.3	716	34.2	3.1	224	29.1	12.2
Ashok Leyland	5,189	29.2	82.9	312	38.6	288.1	61	121.4	LP
Bajaj Auto	8,774	14.8	22.6	1,357	(0.8)	7.1	1,197	(5.1)	5.2
Balkrishna Industries	1,403	20.9	(11.1)	435	27.4	(18.9)	259	17.4	(23.7)
Bharat Forge	1,070	(0.6)	21.4	212	(9.9)	35.6	98	(23.2)	39.7
Eicher Motors	2,828	19.3	32.5	603	1.8	28.0	471	(5.5)	37.2
Escorts	2,115	29.5	29.0	338	59.4	12.5	261	70.8	14.2
Exide Industries	2,952	22.4	7.2	359	12.2	(8.5)	197	0.6	(13.8)
Hero MotoCorp	9,752	39.4	4.1	1,094	5.3	(15.0)	811	(7.9)	(14.9)
M&M	14,435	16.9	23.3	2,026	22.8	7.2	1,246	306.4	NM
Maruti Suzuki	22,981	11.0	22.6	2,139	1.8	10.6	1,553	(0.8)	13.2
Minda Industries	1,556	17.3	6.2	210	28.6	(2.5)	91	103.4	12.6
Motherson Sumi	16,655	6.3	3.9	1,403	13.5	(7.5)	273	1.0	(19.1)
Tata Motors	70,908	(1.1)	32.5	8,087	(1.4)	21.1	(64)	PL	79.0
<b>Total</b>	<b>1,65,642</b>	<b>8.0</b>	<b>23.5</b>	<b>19,291</b>	<b>5.9</b>	<b>10.8</b>	<b>6,679</b>	<b>(10.7)</b>	<b>35.9</b>

Source: Company, ICICI Direct Research; LP = Loss to Profit, PL = Profit to Loss

### Topline & Profitability (Coverage Universe)



### Key players volume growth for Q3FY21 (%)



### Average commodity price movement (₹/kg)

	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)
Steel	55	41	35.1	45	20.6
Aluminium	161	140	15.5	145	10.9
Rubber	150	125	19.6	131	14.4
Plastics	72	72	-0.3	72	0.0
Lead	140	145	-3.6	141	-0.7

### Average currency movement against rupee

	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)
USD/INR	73.8	71.2	3.6	74.4	-0.8
EUR/INR	87.8	78.8	11.4	87.0	0.9
GBP/INR	97.4	91.9	6.0	96.1	1.3
JPY/INR	0.7	0.7	7.7	0.7	0.7

### Top Picks

Ashok Leyland  
Minda Industries

### 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)	We expect pure play CV maker Ashok Leyland to post a substantial sequential improvement on the back of a sharp pick-up in sales volumes in the quarter. Total volumes for Q3FY21 were at 33,411 units, up 7% YoY, 72% QoQ. Product mix improved in favour of M&HCVs, with MHCV: LCV ratio at ~50:50 in Q3FY21 vs. ~41:59 in Q2FY21. Consequent standalone net sales for the quarter are seen at ₹ 5,189 crore, up 29% YoY (it includes sharp price increase on account of BS-VI transition). EBITDA & EBITDA margins for the quarter are seen at ₹ 312 crore and 6%, respectively (up 320 bps QoQ on the back of operating leverage benefits). Consequent PAT is expected at ₹ 61 crore vs. ₹ 28 crore in Q3FY20
Bajaj Auto (BAL)	Bajaj Auto is expected to post stable Q3FY21E performance. Total volumes for the quarter were at 13.06 lakh units, up 8.7% YoY (2-W up 16.2% YoY, 3-W down 35.6% YoY; share of 3-W in total volumes at 8.6% vs. 14.6% YoY; exports at 53% of total volumes vs. ~47% YoY). Net sales in Q3FY21E is expected at ₹ 8,774 crore, up 14.8% YoY. EBITDA & EBITDA margins for the quarter are seen at ₹ 1,357 crore and 15.5%, respectively (down 220 bps QoQ on the back of spike in input costs). Consequent PAT is expected at ₹ 1,197 crore, down 5.1% YoY
Eicher Motors (EML)	Eicher Motors is expected to report healthy Q3FY21E results. RE sales volume for the quarter were at 1.99 lakh units, up 9.2% YoY, with VECV sales volumes up 2.3% YoY to 12,802 units. Consequent net sales are anticipated at ₹ 2,828 crore, up 19.3% YoY. ASPs are seen as being flattish QoQ, with the company already having undertaken a price hike in some models in the previous quarter. EBITDA is expected at ₹ 603 crore with corresponding margins at 21.3%, down 80 bps QoQ, with ensuing standalone PAT at ₹ 471 crore vs. ₹ 499 crore YoY. Share of profit from VECV segment is expected at ₹ 21.9 crore (vs. ₹ 16.6 crore profit in Q3FY20)
Escorts	Escorts is expected to deliver a strong Q3FY21E performance given its highest ever quarterly tractor volumes of 31,562 units (up 25.7% YoY). We build in further fillip to topline on account of expected improvement in fortunes of construction equipment and railway equipment divisions (expect revenue growth of 3.4% & 20%, respectively). Net sales for the quarter is expected at ₹ 2,115 crore, up 30% YoY. EBITDA in Q3FY21E is expected at ₹ 338 crore with corresponding EBITDA margins at 16% (down 230 bps QoQ) amid a rise in RM costs. Resultant PAT is seen at ₹ 261 crore, up 71% YoY
Hero MotoCorp (HMCL)	HMCL is expected to report steady Q3FY21E results tracking 19.8% rise in volumes to 18.45 lakh units & pressure on gross margins amidst increase in commodity prices. Net sales for the quarter is expected at ₹ 9,752 crore, up 39.4% YoY. It includes impact of sharp jump in realisations due to BS-VI transition. ASPs for the quarter are seen benefiting from price hike related uptick at ₹ 52,849/unit. EBITDA in Q3FY21E is expected at ₹ 1,094 crore with corresponding EBITDA margins at 11.2% (down 250 bps QoQ). We expect PAT for the quarter to decline 8% YoY to ₹ 811 crore
M&M	M&M is expected to report healthy Q3FY21E results. Automobile volumes declined 7.6% YoY to 1.22 lakh units while tractor volume grew 20.4% YoY to 1.02 lakh units. Consequent standalone net sales is expected at ₹ 14,435 crore, up 17% YoY. Margin performance is seen taking a hit on a sequential basis courtesy rise in raw material costs, with EBITDA and EBITDA margins expected at ₹ 2,026 crore and 14%, respectively (down 210 bps QoQ). Ensuing PAT is expected at ₹ 1,246 crore, ~3x YoY print (base quarter included exceptional charge of ₹ 601 crore). Key thing to watch in the quarterly results would be any further write down on investments by the group on its journey to RoE accretion
Maruti Suzuki (MSIL)	PV bellwether Maruti Suzuki is expected to post steady Q3FY21 results amid double digit growth in volumes and moderation in operating margins. Total dispatches for the period were at 4.95 lakh units, up 13.4% YoY (domestic up 13%, exports up 21%). ASPs are expected to turn marginally lower amid slight deterioration in product mix (UV at ~15% of total volumes vs. ~16-17% in the past). Total operating income is expected at ₹ 22,981 crore, up 11% YoY. We expect the company to post EBITDA of ₹ 2,139 crore, with corresponding EBITDA margins of 9.3%, down 100 bps QoQ. Consequent PAT is seen at ₹1,553 crore, nearly flat YoY
Tata Motors (TML)	Tata Motors is expected to report stable performance in Q3FY21E. Sales volume for the quarter at JLR is expected at 1.2 lakh units, down 17% YoY, but up 32% QoQ while sales volume at standalone operations in Q3FY21 were reported at 1.58 lakh units, up 22% YoY. Consolidated net sales are seen at ₹ 70,908 crore, down 1% YoY amid depreciating British Pound supporting the translational sales figure at JLR. Consolidated EBITDA and EBITDA margins for the quarter are expected at ₹ 8,087 crore and 11.4% (down 110 bps QoQ) respectively. EBITDA margins in standalone operations are expected at 4.2% while the same for JLR is seen at 12.1%. Ensuing consolidated PAT is expected at loss of ₹ 65 crore

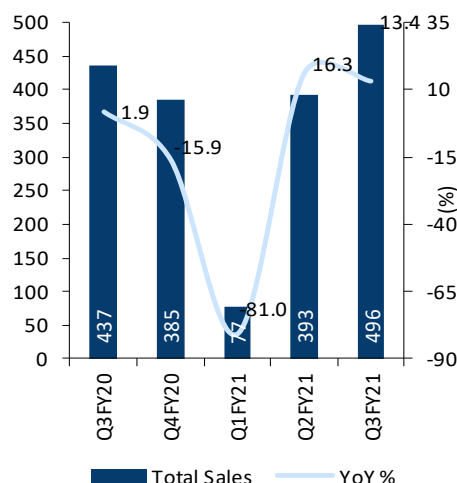
Source: Company, ICICI Direct Research

**Exhibit 3: Company Specific view - Ancillaries**

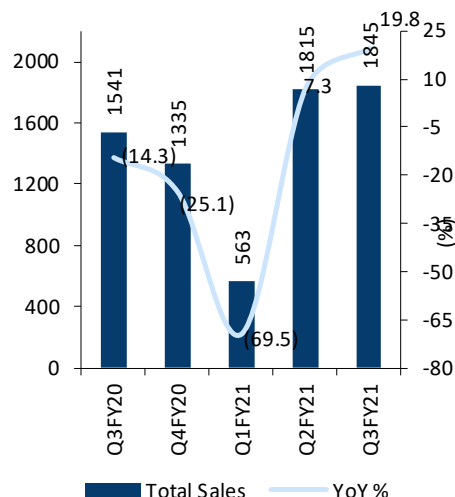
Company	Remarks
Minda Industries (MIL)	Minda Industries is expected to report robust operational performance in Q3FY21E given ~16% volume growth in its target segment (2-W & 4-W) and improvement in margin trajectory. Consolidated sales are expected at ₹ 1,556 crore, up 17% YoY. EBITDA in Q3FY21E is expected at ₹ 210 crore with corresponding EBITDA margins at 13.5%, up 120 bps YoY, but down 120 bps QoQ amid a sequential increase in commodity prices. Consequent PAT in Q3FY21E is expected at ₹ 91 crore ~2x YoY. Higher PAT for the quarter is supported by lower effective tax rate (20%)
Apollo Tyres (ATL)	Apollo Tyres is expected to report a steady performance in Q3FY21E amid a recovery in OEM sales volume (double digit YoY growth), healthy replacement demand and low margin profile in the base quarter. On the consolidated basis, total operating income for the quarter is expected at ₹ 5024 crore, up 14.2% YoY. EBITDA in Q3FY21E is seen at ₹ 716 crore with corresponding EBITDA margins at 14.3%, down 190 bps QoQ (12.1% in Q3FY20, 16.2% in Q2FY21). PAT in Q3FY21E is expected at ₹ 225 crore, up 29% YoY
Bharat Forge (BFL)	Bharat Forge is expected to progress well on its path to recovery with Q3FY21E performance seen being mixed in nature with growth in the domestic business (PV, CV volume prints positive YoY) accompanied by spike in metal prices. On a standalone basis, in Q3FY21E, we expect the company to clock total operating income of ₹ 1,070 crore (flat YoY) which includes ~20% growth in the domestic business and ~12% decline in exports. EBITDA in Q3FY21E is expected at ₹ 212 crore with corresponding EBITDA margins at 19.8%, up 200 bps QoQ (operating leverage benefits). Ensuing PAT for Q3FY21E is expected at ₹ 98 crore, down 23% YoY (base effect)
Exide Industries (EIL)	Exide Industries is expected to report a mixed performance in Q3FY21E amid a relatively higher share of OEM sales in the overall sales pie and lower effective tax rate in the base quarter. Net sales in Q3FY21E is expected at ₹ 2,952 crore, up 22.4% YoY. EBITDA in Q3FY21E is expected at ₹ 359 crore with corresponding EBITDA margins at 12.2%, down 200 bps QoQ - dragged by lagged impact of lead price increase. PAT in Q3FY21E is expected at ₹ 197 crore, flat YoY
Balkrishna Industries (BIL)	Balkrishna Industries (BIL) is expected to report a robust performance in Q3FY21E. Total tyre sales volume for the quarter is expected at 54.4k MT, up 15% YoY, primarily tracking robust underlying demand in the agri segment overseas. Consequent net sales in Q3FY21E is expected at ₹ 1,403 crore, up 21% YoY. EBITDA in Q3FY21E is expected at ₹ 435 crore with corresponding EBITDA margins at 31%, down 300 bps QoQ primarily tracking increase in raw material costs (natural rubber and crude derivatives) amid normalised operating leverage. Ensuing PAT is expected at ₹ 259 crore, up 17.4% YoY
Motherson Sumi (MSSL)	Motherson Sumi is expected to report steady performance in Q3FY21E amid a recovery in sales and moderation in EBITDA margins. We broadly build in ~15% growth in the standalone operations with ~5% sales de-growth in Euro terms for its international subsidiaries (SMR, SMP). On a consolidated basis, for the quarter we expect the company to report total operating income of ₹ 16,655 crore, up 6.3% YoY. EBITDA in Q3FY21E is expected at ₹ 1,403 crore with corresponding EBITDA margins at 8.4%, down 110 bps QoQ. Ensuing consolidated PAT in Q3FY21E is expected at ₹ 273 crore, nearly flat YoY

Source: Company, ICICI Direct Research

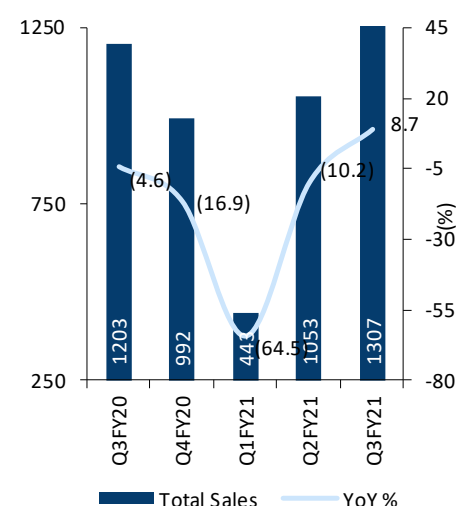
### MSIL volume performance



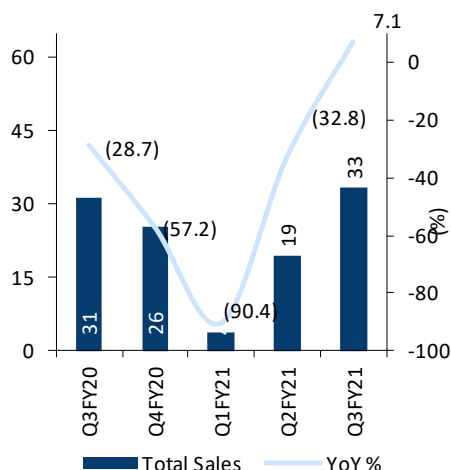
### HMCL volume performance



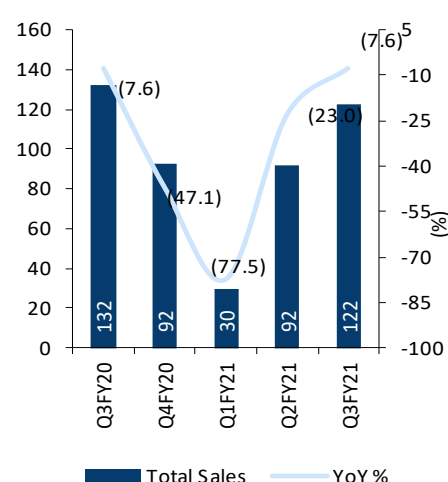
### BAL volume performance



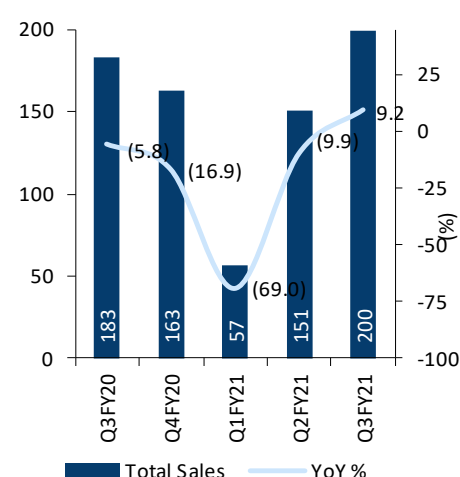
### ALL volume performance



### M&M volume performance



### EML volume performance



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

Sector / Company	CMP	TP		M Cap	EPS (₹)				P/E (x)				EV/EBITDA (x)				RoCE (%)				RoE (%)			
	(₹)	(₹)	Rating	(₹ Cr)	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E
Apollo Tyre (APOTYR)	190	200	Hold	10,869	8.3	5.8	11.6	14.6	22.8	32.9	16.3	13.0	8.8	7.0	6.2	4.9	4.5	5.0	7.0	8.4	4.8	3.3	6.3	7.5
Ashok Leyland (ASHLEY)	110	120	Buy	32,198	0.8	-0.6	2.4	4.7	134.8	-173.2	45.1	23.6	29.1	51.1	18.4	12.3	4.5	0.0	9.5	15.8	4.7	-2.6	9.5	16.2
Bajaj Auto (BAAUTO)	3,435	3,920	Buy	99,399	176.2	142.5	180.2	207.3	19.5	24.1	19.1	16.6	16.1	17.9	13.1	10.8	23.9	24.1	27.3	27.7	25.6	18.5	20.7	21.0
Balkrishna Ind. (BALIND)	1,670	1,770	Hold	32,284	48.9	48.1	58.6	68.0	34.2	34.7	28.5	24.5	26.2	20.7	17.1	14.9	14.4	17.6	19.7	20.4	18.8	16.7	18.2	18.8
Bharat Forge (BHAFOR)	600	510	Hold	27,934	7.5	0.3	9.4	17.0	80.0	NM	63.5	35.4	27.5	49.4	24.5	17.4	5.6	0.3	6.0	9.9	7.8	0.8	8.8	14.0
Eicher Motors (EICMOT)	2,650	2,650	Hold	72,239	67.0	46.6	70.2	90.2	39.5	56.9	37.7	29.4	30.1	37.1	26.3	20.4	17.3	11.8	15.2	16.9	18.3	11.6	15.3	17.1
Escorts (ESCORT)	1,315	1,500	Hold	16,119	39.6	59.5	71.0	80.9	33.2	22.1	18.5	16.3	22.4	14.6	12.3	10.4	16.2	15.3	15.3	14.9	14.2	14.0	14.5	14.3
Exide Industries (EXIIND)	195	200	Hold	16,575	9.7	7.3	9.2	9.9	14.6	19.9	15.8	14.6	12.0	13.3	10.9	9.9	15.7	11.8	13.7	13.6	13.4	9.2	10.8	10.8
Hero Moto (HERHON)	3,060	3,480	Hold	61,108	181.9	123.6	161.8	183.1	16.8	24.8	18.9	16.7	13.8	15.8	11.9	10.2	21.3	16.6	20.6	21.3	22.7	16.0	19.0	19.4
M&M (MAHMAH)	745	870	Buy	92,618	11.2	21.4	38.7	44.3	66.8	34.7	19.3	16.8	15.4	15.1	12.1	10.4	8.8	8.5	10.6	11.7	6.4	9.1	11.6	12.1
Maruti Suzuki (MARUTI)	7,565	6,450	Sell	2,28,524	187.1	132.1	191.8	230.6	40.4	57.3	39.4	32.8	26.4	37.8	24.5	19.9	7.4	3.6	7.6	9.2	11.7	7.8	10.6	11.7
Minda Industries (MININD)	390	440	Buy	10,605	5.9	6.7	10.8	14.7	66.0	58.3	36.0	26.5	18.7	18.5	13.5	11.0	9.1	7.9	12.3	15.2	10.3	9.4	14.2	16.3
Motherson (MOTSUM)	168	165	Hold	53,053	3.7	0.3	5.1	6.3	45.3	NM	33.1	26.6	11.5	15.9	8.6	7.3	9.0	2.8	13.1	16.0	10.4	0.9	13.2	14.9
Tata Motors (TATMOT)	195	210	Buy	70,155	-33.3	-16.6	6.1	17.3	NM	NM	31.9	11.3	6.0	5.5	4.1	3.2	1.3	2.8	6.4	9.4	-18.7	-10.6	3.7	9.6

Source: Bloomberg, ICICI Direct Research

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Hold: -5% to 15%;

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Sell: <-15%



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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