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*After the unlock happened state-wise in Jun'21 month, a number of markets opened in varying proportion during the month. Sales have picked-up for PVs and Tractors faster than others but were still below from the Jan month FY21 levels for PVs sales. Demand for 2Ws has been affected since rural demand is still not picking-up, unlike after the 1st wave, where rural areas were relatively less affected.*

Ashok Leyland	
Rating	Accumulate
TP	123
PE	32.7x
Bajaj Auto	
Rating	Neutral
TP	3,823
PE	29x
Hero MotoCorp	
Rating	Accumulate
TP	3,345
PE	14.7x
Maruti Suzuki	
Rating	Hold
TP	6,945
PE	26.7x
M&M	
Rating	Accumulate
TP	995
PE	10x
TVS Motors	
Rating	Accumulate
TP	665
PE	23.4x

Source: Arihant Research

**The 2Ws segment** in rural and semi-urban markets **were the worst affected** during the 2<sup>nd</sup> COVID-19 wave. Higher RM cost and rising fuel prices have put pressure on the demand. Inquiry level has started picking-up in Jun'21 month. HMCL, Bajaj and Maruti are making another price hike in Jul'21 due to commodity cost inflation, and other players are expected to follow suit.

**The PVs Segment** is well-off than other categories. Inquiry levels have recovered compared to starting of the year. The companies are expecting better recovery in PVs sales due to the preference for personal mobility.

**CVs:** We are expecting demand to witness a rebound towards the end of 2Q FY22. Currently, transporters are being affected by low freight availability, however, it is expected to improve as the markets start to open up. Due to the onset of monsoons, the demand for cargo is still very low, while infrastructure demand is also subdued. Recently, financiers have gone quite aggressive with their funding to LTVs, as they are now financing 85-90% of the total value, capitalizing on their experience from the 1st wave of coronavirus. e-commerce activity continues to support.

#### Commodity cost inflation keeps margin under pressure

The auto companies could see a set of price hikes due to the rising price curve of commodities, which would negatively impact gross margin of the companies in coming quarters. Most OEMs have made price hikes in the last month and will make further price hike ,if required.

#### View and outlook:

The Growth in the Auto ancillary sector to again expected to remain subdued in the Q1 FY22 due to lockdown in urban and semi-urban areas. But we expect ancillaries which have higher exposure to OEMs and have exposure to replacement market should show better results as compared to other OEMs. Among Auto sector we expect growth from CVs( led by demand for Infrastructure and good fleet utilisation). Also, ancillaries with exposure to export market will show some descent growth. **Among auto sector our Preferred picks are Ashok Leyland and Bajaj Auto.**

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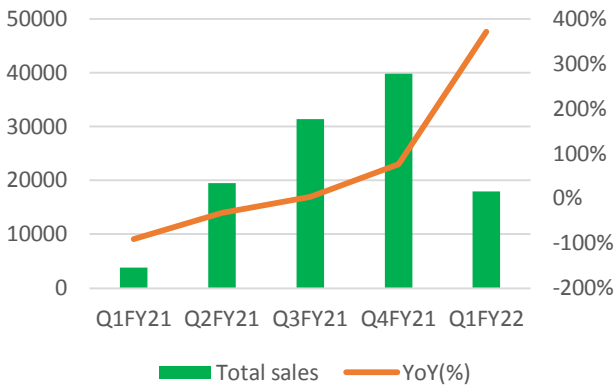
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## Q1FY22 Earnings Estimates:

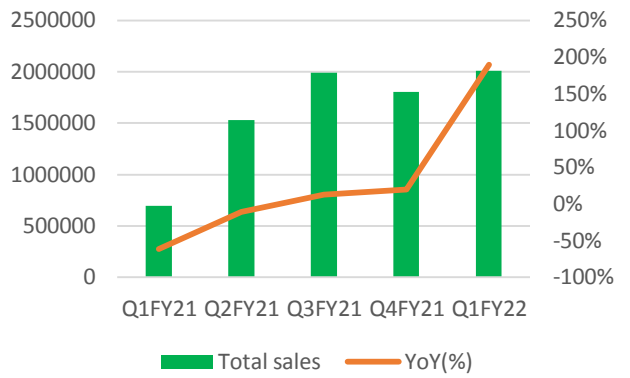
INR (Mn)	Q1FY22E	Q4FY21A	Q1FY21A	YoY	QoQ	Remarks
<b>Hero MotoCorp</b>						
Net Revenue	57,945	86,860	29,715	95%	-33%	On account of price hikes and product mix, revenue to increase 95% YoY/-33% QoQ. EBITDA margins are expected to expand by 413bp QoQ at 11.7%.
EBITDA	6,793	6,599	1,081	528%	3%	• Hero MotoCorp has gained market share in Columbia to 6% in FY21 against 4% in FY20 and focus on EV through Gogoro (for battery swapping- expected to launch in CY22) and in house R&D activity are on track.
EBITDA Margin	11.7%	7.6%	3.6%	809bps	413bps	
PAT	4,943	6,207	613	706%	-20%	
<b>Maruti Suzuki</b>						
Net Revenue	1,74,526	2,40,237	41,065	325%	-27%	
EBITDA	13,956	19,911	-8,634	-262%	-30%	• Demand outlook remain subdued in near-term due to the pandemic. We expect revenue de-growth by 27% on sequential basis. Whereas, EBITDA Margin is expect to contract by 29bps on QoQ basis due to higher RM cost.
EBITDA Margin	8.0%	8.3%	-21.0%	2902bps	-29bps	• CNG sales grew ~50% YoY in FY21 against ~8% YoY decline in overall volumes, while the mix increased to ~12%.
PAT	9,546	11,661	-2,494	-483%	-18%	
<b>Ashok Leyland</b>						
Net Revenue	28,518	69,720	6,452	342%	-59%	• Ashok Leyland's Q1FY22 volumes declined 55% QoQ to 17,987 units, accompanied by product mix deterioration as M&HCV segment comprised 50% of overall sales against 60% in Q4FY21.
EBITDA	869	5,342	-3,332	-126%	-84%	
EBITDA Margin	3.0%	7.7%	-51.6%	-	-	• We expect Net revenue to decline 59% on QoQ. While EBITDA de-growth by 84% due to high input cost. On the PAT front, we expect decline of 162% on QoQ
PAT	-1,254	2,038	-3,871	-68%	-162%	
<b>TVS Motors</b>						
Net Revenue	38,211	53,219	14,317	167%	-28%	• We expect 1QFY22 revenue to decline by 28%, whereas EBITDA is expected to decline by 41% QoQ and margin to contract by -176 bps QoQ. Due to input cost headwinds.
EBITDA	3,175	5,361	-488	-751%	-41%	• We believe TVS will do better in the exports market. Recently TVS launched TVS iQube, an electric scooter powered by an advanced electric drivetrain and next-gen SmartXonnect platform.
EBITDA Margin	8.3%	10.1%	-3.4%	1172bps	-176bps	
PAT	1,379	2,892	-1,391	-199%	-52%	
<b>Bajaj Auto</b>						
Net Revenue	75,421	85,961	78,078	-3%	-12%	• We expect the net revenue to decline by 12% on QoQ and EBITDA to also show weak momentum due to high input cost. However, Bajaj auto is relatively better placed to face margin headwinds due to higher exports mix and lean cost structure.
EBITDA	13,218	15,241	12,502	6%	-13%	
EBITDA Margin	17.5%	17.7%	16.0%	151bps	-20bps	• Domestic demand has started picking up amid an ease in the coronavirus pandemic induced restrictions and once the pandemic gets over, the rural sentiments are expected turn positive.
PAT	11,989	13,321	11,257	7%	-10%	

Source: Arianth Research

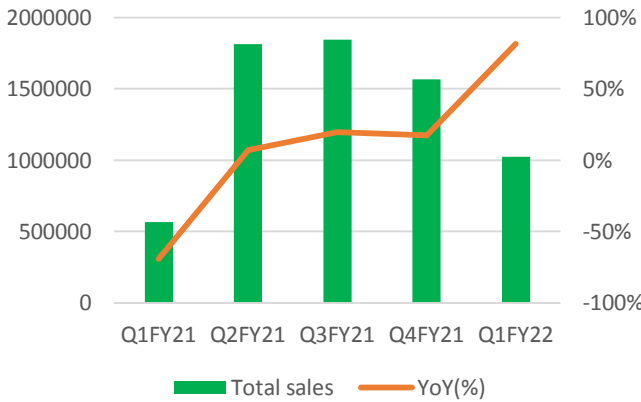
Ashok Leyland



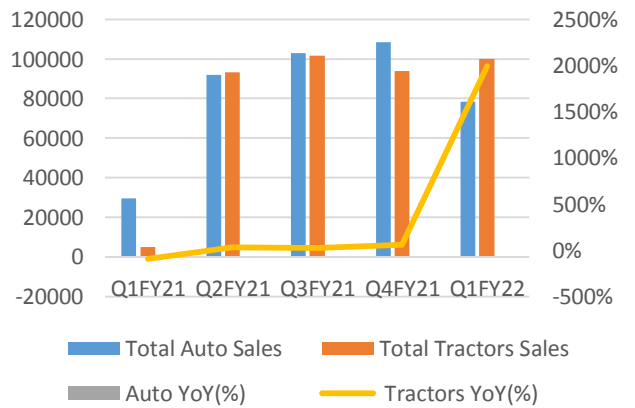
Bajaj Auto



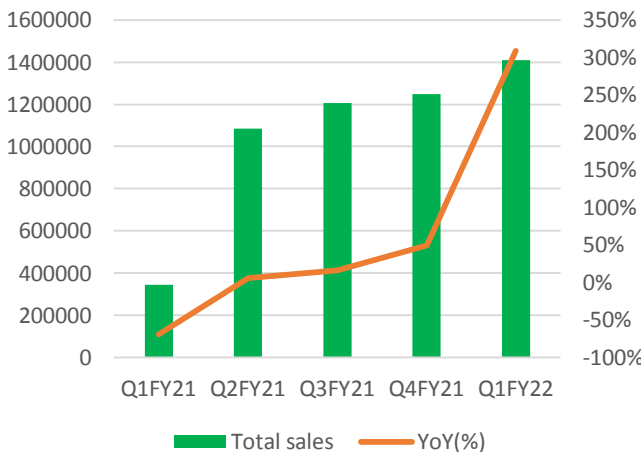
Hero MotoCorp



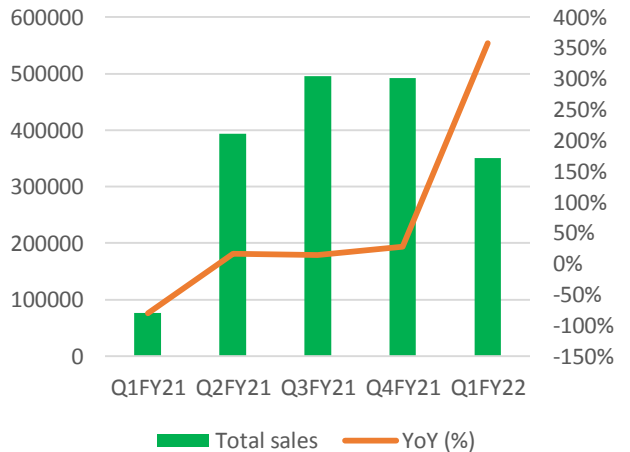
M&M



TVS Motors



Maruti



Source: Arianth Research

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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