

July 8, 2021

Decline in volumes QoQ, high input costs to weigh

The auto industry broadly encountered healthy demand conditions in Q1FY22 barring May, where state-specific lockdowns amid Covid resurgence played spoilsport. Total industry volumes are expected to have declined ~33% sequentially, with the CV space bearing the brunt of the drop-off and tractor space having outperformed given supportive macroeconomics. Topline performance is expected to be slightly better than industry volume trends given broad-based price hikes but margins are seen declining across the board amid no respite in commodity cost inflation (metals, rubber, plastics). We expect our coverage universe (ex-Tata Motors) to report top line de-growth of 21.6% QoQ along with ~210 bps QoQ EBITDA margin decline and PAT de-growth of 31.4% QoQ.

Sharp volume decline across OEMs, segments

As YoY comparison is redundant (base quarter severely impacted by Covid), we examine volume trends on a QoQ basis. Among 2-W, Bajaj Auto performed the best, with volume decline limited to 14.2% (8.99 lakh units) courtesy solid exports delivery. Hero MotoCorp reported 34.7% decline to 10.24 lakh units while Royal Enfield volumes at Eicher Motors fell 39.6% to 1.24 lakh units. PV market leader Maruti Suzuki recorded 28% de-growth to 3.5 lakh units while Tata Motors' standalone volumes fell 40.1% to 1.14 lakh units (JLR volumes expected at 88,324 units, down 35.3%). M&M's total volumes (automotive, tractors) were down 7.6% to 1.87 lakh units while pure play CV maker Ashok Leyland posted 59.2% de-growth to 17,987 units. Escorts' tractor sales de-grew 20.4% to 25,935 units. Ex-Tata Motors, OEM coverage universe is seen posting 25.8% QoQ decline in net sales accompanied by ~250 bps sequential drop in margins to ~9.5%.

Ancillary pack to outperform on relative basis

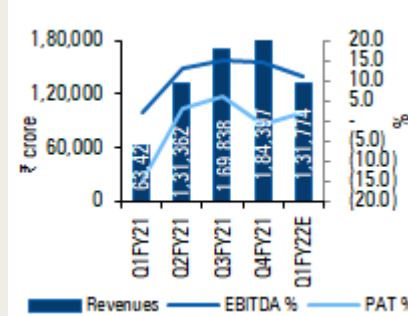
With the OEM channel experiencing volume weakness in the quarter, we expect ancillaries with high exposure to replacement channel (tyre, battery players) to have fared relatively better. Further, reliance on exports markets is thought to have offered comparative insulation to the likes of Balkrishna Industries while global presence is seen leading to relatively steady performance at Motherson Sumi. Minda Industries is expected to outperform base user industries (2-W, 4-W) given its focus on kit value growth. The ancillary pack is seen posting 11.8% sequential revenue decline accompanied by ~150 bps QoQ margin dip to 12.3%.

Exhibit 1: Estimates for Q1FY22E (₹ crore)

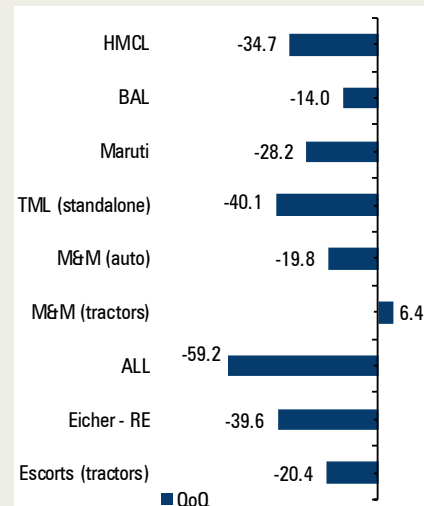
	Revenue Change (%)			EBITDA Change (%)			PAT Change (%)		
	Q1FY22E	YoY	QoQ	Q1FY22E	YoY	QoQ	Q1FY22E	YoY	QoQ
Apollo Tyres	3,830	33.3	(23.8)	534	125.1	(34.5)	71	LP	(75.4)
Ashok Leyland	2,708	316.0	(61.3)	(19)	(94.4)	PL	(187)	(51.9)	PL
Bajaj Auto	7,394	140.1	(14.0)	1,173	187.1	(23.0)	1,093	107.0	(17.9)
Balkrishna Industries	1,676	80.5	(4.0)	485	110.5	(10.4)	310	154.3	(16.8)
Bharat Forge	1,135	165.8	(13.2)	286	LP	(20.3)	150	LP	(27.0)
Eicher Motors	1,812	121.5	(38.4)	314	8,185.7	(50.5)	222	LP	(57.9)
Escorts	1,621	52.6	(26.7)	185	54.5	(46.4)	145	59.8	(45.5)
Hero MotoCorp	5,759	93.8	(33.7)	576	432.7	(52.5)	406	562.3	(53.1)
M&M	12,385	121.1	(8.3)	1,401	155.1	(21.7)	768	585.8	1,485.8
Maruti Suzuki	18,026	339.0	(25.0)	1,086	LP	(45.4)	787	LP	(32.5)
Minda Industries	1,710	310.1	(23.6)	180	LP	(40.5)	49	LP	(65.4)
Motherson Sumi	17,046	100.5	(7.8)	1,646	LP	(16.0)	417	LP	(41.5)
Tata Motors	56,672	77.2	(36.1)	6,964	302.4	(52.4)	(1,663)	(80.3)	(78.1)
Total	1,31,774	107.8	(28.5)	14,811	896.3	(44.4)	2,567	LP	LP

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

Topline & Profitability (Coverage Universe)



Key players volume growth for Q1FY22 (%)



Average commodity price movement (₹/kg)

	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
Steel	76	44	71.1	62	23.6
Aluminium	196	138	42.4	173	13.3
Rubber	169	118	43.0	156	7.9
Plastics	141	71	97.0	129	8.8

Average currency movement against rupee

	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
USD/INR	73.8	75.9	-2.8	72.9	1.2
EUR/INR	88.9	83.6	6.4	88.0	1.0
GBP/INR	103.1	94.2	9.4	100.6	2.5
JPY/INR	0.7	0.7	-4.5	0.7	-2.1

Top Picks

Balkrishna Industries
Mahindra & Mahindra

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Exhibit 2: Company Specific view - OEMs

Company	Remarks
Ashok Leyland (ALL)	Ashok Leyland's Q1FY22 volumes declined 59.2% QoQ to 17,987 units, accompanied by product mix deterioration as M&HCV segment comprised ~50% of overall sales vs. ~60% in Q4FY21. Consequently, net sales are seen declining 61.3% sequentially to ₹ 2,708 crore. We expect ALL to post a loss at the EBITDA level of ₹ 19 crore (against EBITDA margins of 7.6% in Q4FY21) tracking negative operating leverage, with loss after tax seen at ₹ 187 crore
Bajaj Auto (BAL)	Bajaj Auto is expected to report a relatively steady performance in Q1FY22. Total sales volume was at 10.06 lakh units (down 14% QoQ; 2-W sales at ~9 lakh units & 3-W sales volume at ~1.06 lakh units) with product mix remaining unchanged QoQ (3-W constituted ~10% of sales). Total operating income is expected to decline by a similar magnitude (down 14% QoQ to ₹ 7,394 crore), with blended ASPs flattish QoQ at ₹ 71,917/unit. EBITDA is expected at ₹ 1,173 crore with corresponding margins at 15.1%, down 260 bps QoQ on expected increase in all cost heads. Ensuing PAT is expected at ₹ 1,093 crore (down 17.9% QoQ)
Eicher Motors (EML)	Eicher Motors is expected to report weak performance in Q1FY22 amid 39.6% QoQ Royal Enfield (RE) volume decline to 1.23 lakh units and VECV segment volume decline of 68% QoQ to 5,806 units. Consolidated total operating income is expected at ₹ 1,812 crore (down 38.4% QoQ) amid ~2% QoQ blended rise in ASPs at RE to ₹ 1.45 lakh/unit. EBITDA is expected at ₹314 crore with corresponding margins at 17.3%, down 430 bps QoQ driven by rise in key commodity prices and negative operating leverage. Ensuing PAT is expected at ₹ 222 crore (down 58% QoQ), with share of loss from VECV expected at ₹ 12.8 crore vs. ₹ 69 crore profit in Q4FY21
Escorts	Escorts is expected to report a subdued performance in Q1FY22. Total tractor sales came in at 25,935 units (down 20.4% QoQ) with construction equipment volumes at 606 units (down 62% QoQ). Consequently, total operating income for Q1FY22 is expected at ₹ 1,621 crore (down 26.7% QoQ). EBITDA in Q1FY22 is expected at ₹ 185 crore with corresponding EBITDA margins at 11.4%, down 420 bps QoQ, driven by spike in input costs as well as negative operating leverage. Ensuing PAT is expected at ₹ 145 crore (down 45.5% QoQ)
Hero Motocorp (HMCL)	Q1FY22 performance at HMCL is expected to be soft tracking 34.7% sequential volume decline to 10.24 lakh units. Total operating income is seen at ₹ 5,759 crore (down 33.7% QoQ) amid 1.5% QoQ rise in ASPs to ₹ 56,215/unit. EBITDA for the quarter is expected at ₹ 576 crore (down 52.5% QoQ) with corresponding margins at 10%, down 390 bps QoQ. Margin reading is seen taking a hit primarily on account of increase in employee costs and other expenses on percentage of sales basis. Ensuing PAT is expected at ₹ 406 crore (down 53% QoQ)
M&M	M&M is expected to be among the better OEM pack performers in Q1FY22 on the back of a sequential increase in tractor volumes (up 6.4% QoQ to 99,929 units). Automotive volumes declined 19.8% QoQ to 86,848 units. Resulting net standalone sales are expected at ₹ 12,385 crore, down 8.3% QoQ (total volume decline at 7.6% to 1.87 lakh units). Better product mix (tractor volumes at 54% of overall vs. 46% in Q4FY21) is seen leading to relatively limited margin decline (down 190 bps QoQ to 11.3%), with consequent PAT expected at ₹ 768 crore (vs. ₹ 48 crore in Q4FY21)
Maruti Suzuki (MSIL)	MSIL is expected to post soft Q1FY22 numbers. Volumes for the quarter declined 28.2% QoQ to 3.53 lakh units but revenue decline is expected to be lower at 25% QoQ to ₹ 18,026 crore tracking 3.1% sequential rise in ASPs to ₹ 4.81 lakh/unit amid price hikes undertaken and slight product mix improvement (share of UVs rose to 17% vs. 15.6% in the previous quarter). Weak operating leverage, however, along with higher raw material costs are seen leading to 230 bps sequential EBITDA margin decline to 6%. PAT for the quarter is expected at ₹ 787 crore, down 32.5% QoQ
Tata Motors (TML)	TML is expected to report muted Q1FY22 results tracking sequential weakness in volumes across India PV, India CV and JLR operations along with associated perils of negative operating leverage and additionally, higher raw material costs. JLR wholesale volumes (including China JV) are expected to have declined 35.3% QoQ to 88,324 units while India CV, PV segments posted sequential decline of 52.9% QoQ (to 50,145 units), 24.4% QoQ (to 64,441 units) respectively. Consolidated operating income is expected to have declined 36.1% QoQ to 56,672 crore. Consolidated EBITDA margins are seen declining by 420 bps QoQ to 12.3% with JLR margins seen declining by 480 bps QoQ to 10.5%. We expect TML to post consolidated loss of ₹ 1,663 crore in Q1FY22.

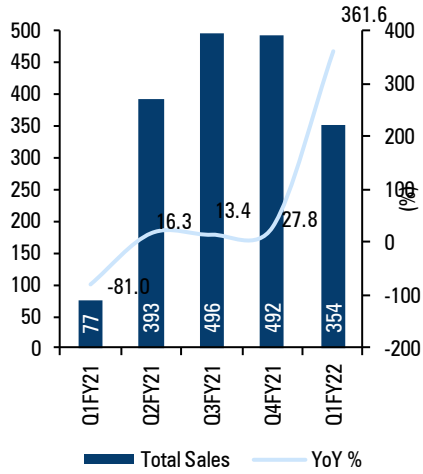
Source: Company, ICICI Direct Research

Exhibit 3: Company Specific view - Ancillaries

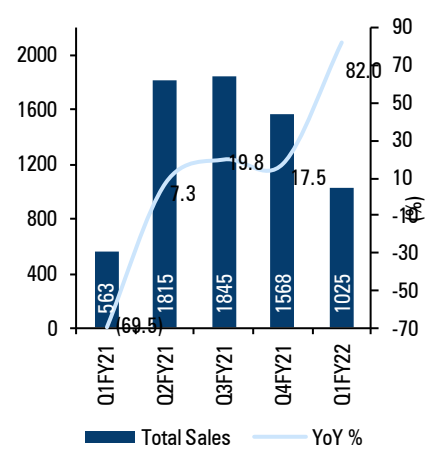
	Remarks
Minda Industries (MIL)	MIL is expected to post 23.6% QoQ decline in Q1FY22 net sales to ₹ 1,710 crore, lower than ~30% decline in domestic 2-W, 4-W segments given its tendency to outperform base user industries. EBITDA for the quarter is expected at ₹ 180 crore, down 40.5% with attendant margins declining by 300 bps QoQ to 10.5% tracking lower gross margins and higher employee and other costs. Ensuing PAT for Q1FY22 is expected at ₹ 49 crore vs. ₹ 140 crore in Q4FY21
Apollo Tyres (ATL)	Heavy exposure to CV space domestically is thought to have resulted in 30.1% QoQ standalone total operating income decline for Q1FY22 to ₹ 2,536 crore. Sequential decline in European operations is seen being limited to 7.8% QoQ to ₹ 1,295 crore. Consequent consolidated net sales are expected at ₹ 3,830 crore, down 23.8% QoQ. Consolidated EBITDA is expected at ₹ 534 crore, down 34.5% sequentially with attendant margins declining by 230 bps QoQ to 13.9% amid increase under all cost heads. Subsequently, consolidated PAT is seen at ₹ 71 crore, down 75.4% QoQ
Bharat Forge (BFL)	For BFL, exports performance and resilience in oil & gas segment is expected to mitigate the weakness in India CV segment. Q1FY22 standalone net sales are seen declining 13.2% QoQ to ₹ 1,135 crore. Sequential gross margin contraction along with higher employee costs on percentage of sales basis are seen resulting in ~230 bps QoQ EBITDA margin decline to 25.2%. Consequent standalone PAT is expected at ₹ 150 crore, down ~27% QoQ
Balkrishna Industries (BIL)	BIL is expected to be the standout performer in the auto ancillary pack for Q1FY22 riding on marginal volume decline sequentially (down 7.6% QoQ to 62,858 MT). Net sales for the quarter are seen at ₹ 1,676 crore, down 4% QoQ - buoyed in part by sequential rupee depreciation. EBITDA is expected at ₹ 485 crore with EBITDA margins at 29%, down 200 bps QoQ largely tracking deterioration in gross margins. Ensuing PAT for Q1FY22 is expected at ₹ 310 crore, down 16.8% QoQ
Motherson Sumi (MSSL)	For MSSL, evolution of margin profile at overseas subsidiaries (SMP in particular) would remain a key monitorable, with overall performance seen being relatively stable amid high exposure to the global PV markets. Consolidated Q1FY22 net sales are expected at ₹ 17,046 crore, down 7.8% QoQ. EBITDA is expected at ₹ 1,646 crore with corresponding EBITDA margins at 9.7%, down 90 bps QoQ. Ensuing PAT for Q1FY22 is expected at ₹ 417 crore (down 41.5% QoQ). SMRPBV is expected to report a topline of €1,324 million (down ~2.8% QoQ) with corresponding EBITDA at €134 million and operating margins at 10.1%

Source: Company, ICICI Direct Research

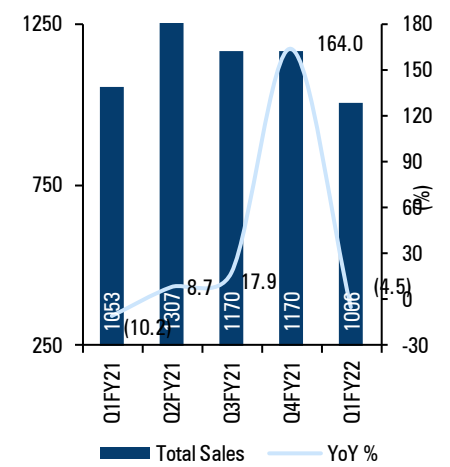
MSIL volume performance



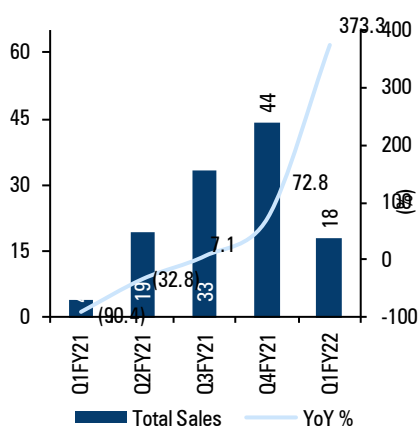
HMCL volume performance



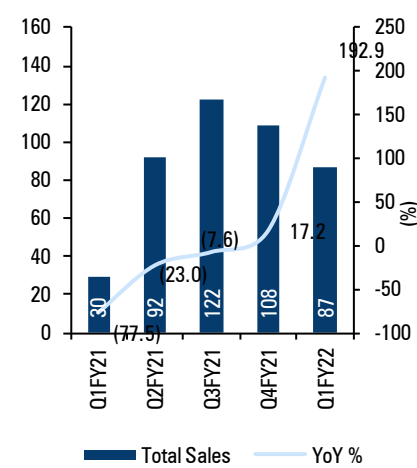
BAL volume performance



ALL volume performance



M&M volume performance (automobile)



EML volume performance

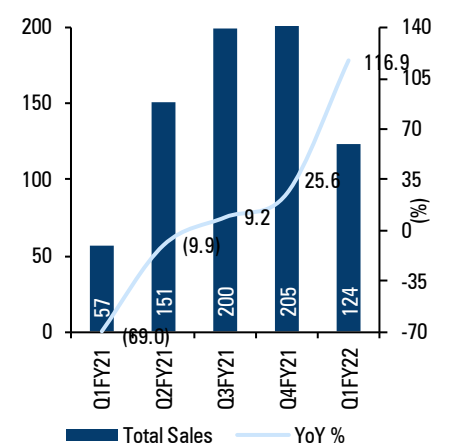


Exhibit 4: ICICI Direct coverage universe (Auto & Auto Ancillary)

Sector / Company	CMP	TP	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	(₹)			FY21P	FY22E	FY23E	FY21P	FY22E	FY23E	FY21P	FY22E	FY23E	FY21P	FY22E	FY23E	FY21P	FY22E	FY23E
Apollo Tyre (APOTYR)	231	260	Buy	14,670	5.5	9.9	16.2	41.9	23.4	14.2	6.9	7.1	5.2	7.6	6.1	9.1	6.4	5.3	8.2
Ashok Leyland (ASHLEY)	125	150	Buy	36,589	-1.1	1.1	4.4	-117.0	113.4	28.5	73.9	30.1	14.8	-1.9	4.8	15.7	-4.4	4.5	16.5
Bajaj Auto (BAAUTO)	4,187	4,500	Buy	1,21,159	157.4	183.5	210.0	26.6	22.8	19.9	20.1	16.5	14.1	18.2	21.9	25.2	18.1	20.6	23.1
Balkrishna Ind. (BALIND)	2,290	2,250	Buy	44,270	59.8	68.2	80.5	38.3	33.6	28.5	25.0	21.5	18.3	19.3	20.4	21.6	19.2	19.0	19.4
Bharat Forge (BHAFOR)	805	875	Buy	37,478	-2.7	15.9	25.0	NM	50.8	32.2	46.1	24.8	17.7	2.2	8.0	12.1	3.3	12.3	16.9
Eicher Motors (EICMOT)	2,700	2,970	Hold	73,602	49.3	66.7	87.4	54.8	40.5	30.9	37.0	28.4	21.6	11.3	13.5	15.8	11.8	14.3	16.6
Escorts (ESCORT)	1,200	1,140	Hold	14,710	71.2	62.0	76.9	16.8	19.3	15.6	10.4	11.9	9.3	18.7	13.8	14.8	16.2	12.6	13.7
Hero Moto (HERHON)	2,915	3,440	Buy	58,213	148.4	170.8	196.5	19.6	17.1	14.8	12.5	10.6	9.0	20.8	23.1	24.5	19.5	20.7	21.7
M&M (MAHMAH)	780	1,000	Buy	96,970	2.3	29.9	37.8	346.4	26.1	20.6	14.4	15.2	12.1	9.5	8.2	10.5	2.7	9.6	11.1
Maruti Suzuki (MARUTI)	7,450	6,080	Reduce	2,25,050	140.0	172.9	225.1	53.2	43.1	33.1	34.0	25.3	18.9	4.3	6.6	9.1	8.2	9.5	11.4
Minda Industries (MININD)	633	725	Buy	17,212	7.6	10.9	19.1	83.3	58.2	33.1	24.9	20.8	14.7	9.1	10.6	16.7	10.4	14.2	19.6
Motherson (MOTSUM)	235	300	Buy	74,211	3.3	7.4	10.0	NM	31.6	23.5	16.3	9.9	8.0	6.7	16.2	20.5	8.8	16.7	19.7
Tata Motors (TATMOT)	317	375	Buy	1,14,047	-35.0	5.5	37.6	NM	58.0	8.4	5.1	5.4	3.3	6.4	6.6	14.3	-23.6	3.6	19.6

Source: Company, ICICI Direct Research

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