

October 7, 2021

Unlock aids volumes; modest margin uptick on cards

The auto industry posted a healthy sequential rebound (total industry volumes up ~35% QoQ) on the demand front post state-specific unlocking in Q2FY22. All segments ex-PV (impacted by chip shortages) posted double-digit QoQ volume increases with CV space outperforming as a whole. Operating leverage gains due to higher volumes are expected to have more than offset elevated commodity costs, with the universe thereby seen recovering from lower margin profile in Q1FY22. We expect our coverage universe (ex-Tata Motors) to report 8.7% QoQ topline growth & ~60 bps QoQ EBITDA margin increase to 10.7%, with PAT growth of 35.7% QoQ. Notably, YoY, performance still looks muted (ex-CV space) due to pent up demand witnessed post Covid first wave in Q2FY21.

OEM pack to outperform on sharp volume improvement

With YoY comparison still redundant (base quarter recorded steep pent-up led volume jump), we continue to examine volume trends on a QoQ basis. Among 2-W, market leader Hero MotoCorp (HMCL) outperformed with 40.4% volume increase to 14.39 lakh units. Bajaj Auto (BAL) rode on healthy domestic performance to post 13.8% total QoQ volume increase to 11.44 lakh units while Royal Enfield volumes at Eicher Motors were flat at 1.23 lakh units. PV bellwether Maruti Suzuki (MSIL) recorded 7.3% growth to 3.79 lakh units while Tata Motors' (TML) standalone volumes jumped 49.2% to 1.71 lakh units. M&M's total volumes (automotive, tractors) were up 2% to 1.9 lakh units while pure play CV maker Ashok Leyland posted 53.1% growth to 27,543 units. Escorts' tractor sales de-grew 13.8% YoY to 21,073 units. Ex-Tata Motors, OEM universe is seen posting 16.6% QoQ growth in sales with by ~70 bps QoQ rise in margins to ~10.2%.

Mixed bag in store for ancillaries

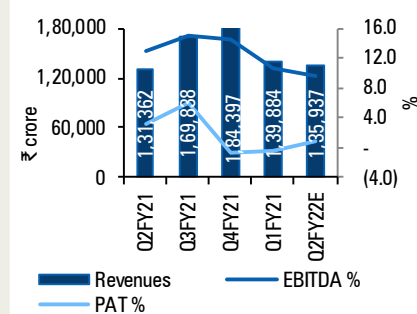
Hefty sequential rebound in OEM channel volumes is expected to lead to relative underperformance in case of ancillaries with a heavy presence in replacement markets (tyre, battery players). By contrast, Minda Industries is expected to have done well courtesy its limited aftermarket exposure & kit value increase while Bharat Forge is expected to have outperformed the ancillary pack due to underlying strength in India & global CV segment as well as oil & gas space. Motherson Sumi's dependence on the global PV space, hit by chip shortages, is seen leading to a subdued performance. The ancillary pack is seen posting ~6% sequential revenue decline. However, margins are expected to improve ~70 bps QoQ to 11.9%.

Exhibit 1: Estimates for Q2FY22E (₹ crore)

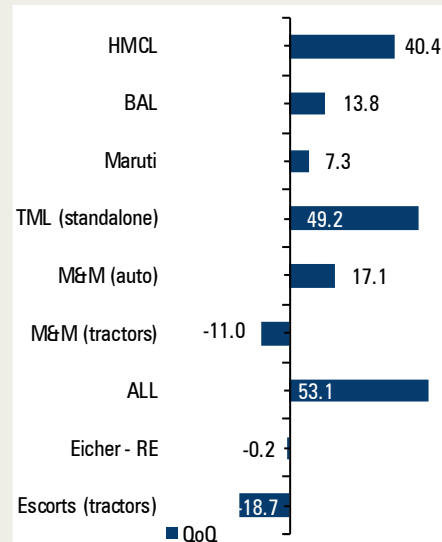
| | Revenue Change (%) | | | EBITDA Change (%) | | | PAT Change (%) | | |
|-----------------------|--------------------|------------|--------------|-------------------|---------------|---------------|----------------|---------------|-----------|
| | Q2FY22E | YoY | QoQ | Q2FY22E | YoY | QoQ | Q2FY22E | YoY | QoQ |
| Apollo Tyres | 5,054 | 19.4 | 10.2 | 600 | (13.7) | 5.8 | 120 | LP | (6.2) |
| Ashok Leyland | 4,571 | 61.1 | 54.9 | 167 | 107.5 | LP | (80) | 45.1 | 71.5 |
| Bajaj Auto | 8,701 | 21.6 | 17.8 | 1,366 | 7.8 | 22.0 | 1,240 | 9.0 | 16.9 |
| Balkrishna Industries | 1,822 | 15.4 | 0.5 | 509 | (5.2) | (0.8) | 339 | (0.0) | 2.5 |
| Bharat Forge | 1,627 | 84.6 | 18.6 | 487 | 211.3 | 24.6 | 288 | 310.3 | 73.0 |
| Eicher Motors | 1,967 | (6.9) | 1.2 | 355 | (24.5) | (2.1) | 317 | (7.6) | 33.8 |
| Escorts | 1,552 | (5.3) | (7.1) | 182 | (39.4) | (21.8) | 147 | (35.6) | (15.7) |
| Hero MotoCorp | 8,090 | (13.6) | 47.4 | 970 | (24.6) | 88.4 | 709 | (25.6) | 94.1 |
| M&M | 12,493 | 6.7 | 6.2 | 1,710 | (9.5) | 4.8 | 1,073 | 1,289.6 | 25.4 |
| Maruti Suzuki | 18,574 | 5.0 | 10.6 | 980 | (49.3) | 19.4 | 708 | (48.4) | 60.7 |
| Minda Industries | 1,836 | 25.3 | 14.6 | 193 | (10.5) | 31.4 | 57 | (29.0) | 271.6 |
| Motherson Sumi | 14,510 | (8.1) | (14.5) | 1,165 | (23.2) | (12.7) | 214 | (36.7) | (26.1) |
| Tata Motors | 55,140 | 4.4 | (15.9) | 4,235 | (36.6) | (42.0) | (4,092) | NM | 8.0 |
| Total | 1,35,937 | 5.1 | (2.8) | 12,919 | (24.1) | (12.7) | 1,042 | (75.4) | LP |

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

Topline & Profitability (Coverage Universe)



Key players volume growth for Q2FY22 (%)



Average commodity price movement (₹/kg)

| | Q2FY22 | Q2FY21 | YoY (%) | Q1FY22 | QoQ (%) |
|-----------|--------|--------|---------|--------|---------|
| Steel | 78 | 47 | 67.1 | 76 | 2.6 |
| Aluminium | 217 | 145 | 49.5 | 196 | 10.5 |
| Rubber | 173 | 131 | 32.2 | 169 | 2.8 |
| Plastics | 144 | 72 | 99.3 | 141 | 2.0 |

Average currency movement against rupee

| | Q2FY22 | Q2FY21 | YoY (%) | Q1FY22 | QoQ (%) |
|---------|--------|--------|---------|--------|---------|
| USD/INR | 74.1 | 74.4 | -0.4 | 73.8 | 0.4 |
| EUR/INR | 87.3 | 87.0 | 0.4 | 88.9 | -1.8 |
| GBP/INR | 102.1 | 96.1 | 6.2 | 103.1 | -1.0 |
| JPY/INR | 0.7 | 0.7 | -3.9 | 0.7 | -0.1 |

Top Picks

M&M
Balkrishna Industries
Bharat Forge

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Exhibit 2: Company Specific view - OEMs

| Company | Remarks |
|----------------------|--|
| Ashok Leyland (ALL) | Ashok Leyland's Q1FY22 volumes jumped 53.1% QoQ to 27,543 units while product mix remained stable with M&HCV segment comprising ~49% of overall sales vs. ~50% in Q1FY22. Consequently, net sales are seen rising 55% sequentially to ₹ 4,571 crore. We expect ALL to post 3.6% EBITDA margins (against EBITDA loss in Q1FY22) tracking operating leverage benefits amid higher commodity costs, with loss after tax seen narrowing to ₹ 80.5 crore |
| Bajaj Auto (BAL) | For BAL, total Q2FY22 sales volumes were at 11.44 lakh units, up 13.8% QoQ. Product mix, however, normalised, with exports share of volumes declining to 53% vs. 64% in the previous quarter. Nevertheless, we expect blended ASPs to have increased by ~3.6% QoQ to ₹ 74,320/unit amid calibrated price hikes across the product range, with consequent net sales seen rising 17.8% QoQ to ₹ 8,701 crore. EBITDA margins are seen rising marginally to 15.7% for the quarter amid lower employee costs and other expenses on percentage of sales basis (operating leverage at play), with PAT expected at ₹ 1,240 crore, up ~17% QoQ |
| Eicher Motors (EML) | EML is expected to report a soft performance in Q2FY22 amid flattish QoQ Royal Enfield (RE) volumes at 1.23 lakh units. Consolidated net sales are expected at ₹ 1,967 crore (up 1.2% QoQ) amid ~4.5% QoQ blended rise in ASPs to ₹ 1.59 lakh/unit due to higher share of >350 cc motorcycles within overall mix. EBITDA is expected at ₹ 355 crore with corresponding margins at 17.9%, down 50 bps QoQ driven by higher commodity prices and absence of operating leverage. Ensuing PAT is expected at ₹ 317 crore (up 33.8% QoQ), with VECV profit share expected at ₹ 47.4 crore (VECV volumes up 160% QoQ to 15,134 units) |
| Escorts (ESC) | Escorts is expected to report a subdued performance in Q2FY22. Total tractor sales came in at 21,073 units (down 13.8% YoY) with construction equipment volumes at 1,074 units up 31% YoY). Consequently, total operating income for Q2FY22 is expected at ₹ 1,552 crore (down 5.3% YoY). EBITDA in Q2FY22 is expected at ₹ 182 crore with corresponding EBITDA margins at 11.8%, down 220 bps QoQ, driven by higher input costs as well as negative operating leverage. Ensuing PAT is expected at ₹ 147 crore (down 35.6% YoY) |
| Hero MotoCorp (HMCL) | HMCL is expected to post a strong sequential performance in Q1FY22. For the quarter, total 2-W volumes rose 40.4% QoQ to 14.38 lakh units. Consequent net sales are expected at ₹ 8,090 crore, up 47.4% QoQ amid calibrated price hikes undertaken by the company during Q2FY22. Courtesy sharp volume improvement and associated operating leverage gains, EBITDA margins are seen expanding by ~260 bps QoQ to 12%. PAT is expected at ₹ 709 crore |
| M&M | M&M is seen reporting steady Q2FY22 results. Total volumes for the quarter were at 1.9 lakh units, up 2% QoQ (automotive volumes up 17% to 1.01 lakh units, tractor volumes down 11% to 88,920 units). Net sales are seen rising by 6.2% sequentially to ₹ 12,493 crore with automotive ASPs seen at ~₹ 7.14 lakh/unit (up 2.5% QoQ) and tractor ASPs expected to increase 2% QoQ to ₹ 5.43 lakh/unit. Standalone margins for Q2FY22 are expected to dip slightly to 13.7% with consequent standalone PAT seen at ₹ 1,073 crore, up 25.4% QoQ |
| Maruti Suzuki (MSIL) | MSIL is expected to report relatively steady Q2FY22 numbers. Sequential growth in net sales for the quarter is expected at 10.6% to ₹ 18,574 crore on the back of 7.3% rise in total volumes QoQ to 3.79 lakh units and 3% rise in ASPs to ₹ 4.89 lakh/unit amid price hikes undertaken and product mix improvement (share of UVs rose to 19.8% vs. 17% in the previous quarter). Limited operating leverage, however, is expected to lead to only marginal 40 bps QoQ improvement in EBITDA margins to 5%. PAT for the quarter is expected at ₹ 708 crore |
| Tata Motors (TML) | TML is expected to report weak Q2FY22 results tracking a sequential decline in volumes at JLR operations due to global semiconductor shortages. JLR wholesale volumes (including China JV) are expected to have declined 33% QoQ to ~65,000 units while India CV, PV segments posted sequential growth of 73% QoQ (to 86,887 units), 31% QoQ (to 84,384 units), respectively. Consolidated net sales are expected to have declined ~16% QoQ to ₹ 55,140 crore. Consolidated EBITDA margins are seen declining 340 bps QoQ to 7.6% with JLR margins seen declining by 200 bps QoQ to 7%. We expect TML to post consolidated loss of ₹ 4,092 crore in Q2FY22 |

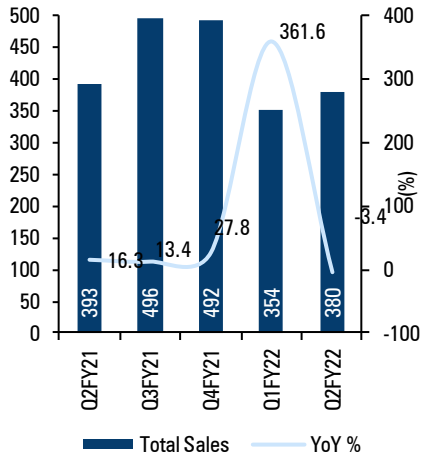
Source: Company, ICICI Direct Research

Exhibit 3: Company Specific view - Ancillaries

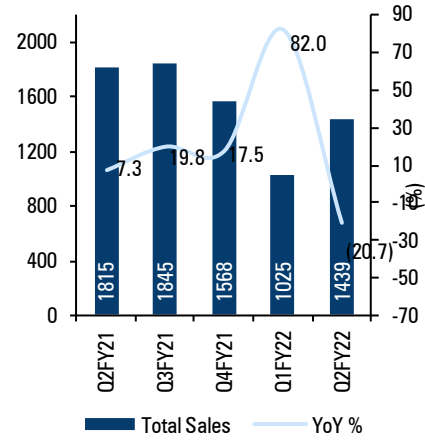
| | Remarks |
|-----------------------------|--|
| Minda Industries (MIL) | MIL is expected to post healthy Q2FY22 performance, with QoQ growth in net sales seen at ~15% to ₹ 1,836 crore. EBITDA for the quarter is expected at ₹ 193 crore, with attendant margins rising 130 bps QoQ to 10.5% tracking higher operating leverage. Ensuing PAT is seen at ₹ 57.3 crore in Q2FY22. The management commentary on kit value increase as well as incremental work done on the EV components front will be the key monitorable from the results |
| Apollo Tyres (ATL) | Heavy exposure to CV space domestically is seen resulting in 12% QoQ standalone total operating income increase for Q2FY22 to ₹ 3,607 crore, whereas sequential growth in European operations is seen at 6% QoQ to ₹ 1,446 crore. Consequent consolidated net sales are expected at ₹ 5,054 crore, up 10.2% QoQ. Consolidated EBITDA is expected at ₹ 600 crore, with attendant margins declining 50 bps QoQ to 11.9% amid an increase in commodity costs during the quarter. Subsequently, consolidated PAT is seen at ₹ 120 crore, down 6.2% QoQ. For BFL, resilience in oil & gas and India CV segments during Q2FY22 are expected to lead to a relatively healthy overall performance. Standalone operating income is seen growing 18.6% QoQ to ₹ 1,627 crore. Operating leverage gains are seen negating higher input prices sequential, with overall blended EBITDA margins expected to increase 150 bps QoQ to 30%. Consequent standalone (adjusted) PAT is expected at ₹ 288 crore vs. ₹ 213 crore, up 35% QoQ. Management commentary on global CV space demand outlook amid ongoing chip shortage will be key monitorables from the quarterly results |
| Bharat Forge (BFL) | BIL is expected to post a largely steady Q2FY22 performance on the back of relative resilience in volumes sequentially (down 1.8% QoQ to 67,346 MT). Net sales for the quarter are seen at ₹ 1,822 crore, flattish QoQ. EBITDA is expected at ₹ 509 crore with EBITDA margins at 27.9%, down 40 bps QoQ largely tracking deterioration in gross margins. Ensuing PAT for Q2FY22 is expected at ₹ 339 crore, up 2.5% QoQ |
| Balkrishna Industries (BIL) | Given its high exposure to the global PV market that continues to report sustained supply constraints owing to semiconductor shortages, MSSL is expected to report a subdued Q2FY22 performance. Total consolidated sales is expected to decline by 14.5% QoQ to ₹ 14,510 crore. Consolidated margins are expected to increase marginally by 20 bps QoQ to 7.9%, primarily due to one-off's impacting EBITDA in Q1FY22 with consolidated PAT expected at ₹ 214 crore vs. ₹ 289 crore in Q1FY22. Margin performance at key subsidiaries SMR and SMP will be a key monitorable for MSSL |
| Motherson Sumi (MSSL) | |

Source: Company, ICICI Direct Research

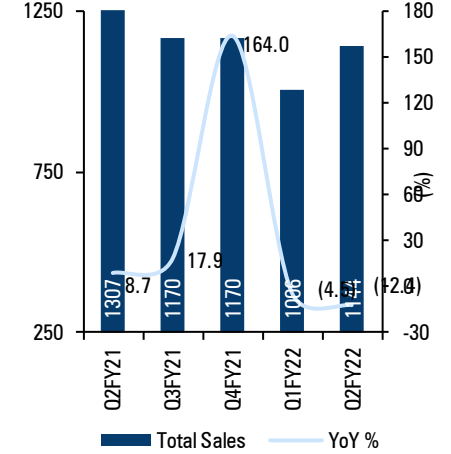
MSIL volume performance



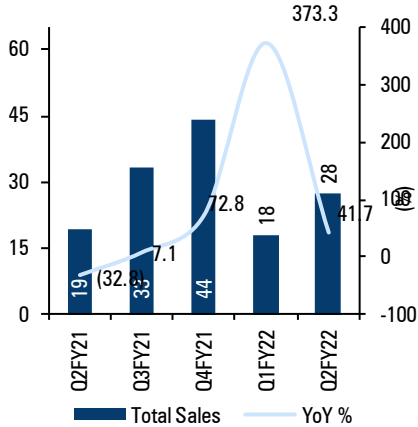
HMCL volume performance



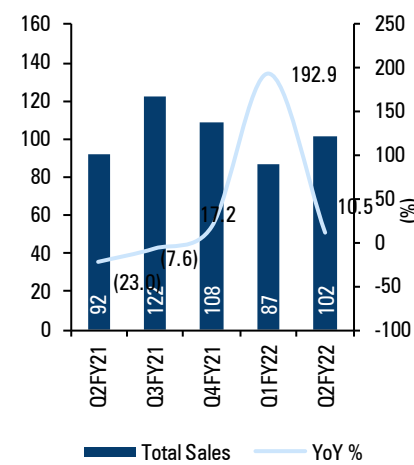
BAL volume performance



ALL volume performance



M&M volume performance (automobile)



EML volume performance

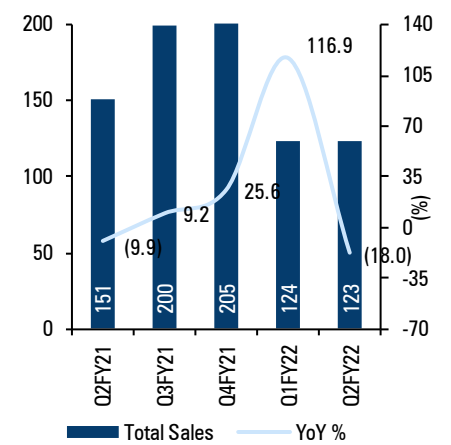


Exhibit 4: ICICI Direct coverage universe (Auto & Auto Ancillary)

| 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) | 229 | 275 | Buy | 14,543 | 5.5 | 10.2 | 16.6 | 41.5 | 22.4 | 13.8 | 6.8 | 7.1 | 5.1 | 7.6 | 6.1 | 9.1 | 6.4 | 5.5 | 8.4 |
| Ashok Leyland (ASHLEY) | 136 | 160 | Buy | 39,809 | -1.1 | 0.4 | 4.6 | -127.3 | 307.5 | 29.2 | 79.9 | 35.7 | 14.7 | -1.9 | 3.2 | 16.5 | -4.4 | 1.9 | 17.7 |
| Bajaj Auto (BAAUTO) | 3,862 | 4,275 | Hold | 1,11,755 | 157.4 | 167.7 | 193.6 | 24.5 | 23.0 | 19.9 | 18.2 | 17.0 | 14.3 | 18.2 | 19.3 | 22.5 | 18.1 | 18.9 | 21.4 |
| Balkrishna Ind. (BALIND) | 2,531 | 2,825 | Buy | 48,929 | 59.8 | 67.0 | 78.4 | 42.3 | 37.8 | 32.3 | 27.7 | 24.3 | 21.0 | 19.3 | 19.9 | 21.0 | 19.2 | 18.7 | 19.0 |
| Bharat Forge (BHAFOR) | 746 | 1,000 | Buy | 34,732 | -2.7 | 17.2 | 25.1 | NM | 43.4 | 29.7 | 43.1 | 20.3 | 15.9 | 2.2 | 9.3 | 12.7 | 3.3 | 14.0 | 16.8 |
| Eicher Motors (EICMOT) | 2,796 | 2,920 | Hold | 76,415 | 49.3 | 64.9 | 96.4 | 56.7 | 43.1 | 29.0 | 38.6 | 29.8 | 20.2 | 11.3 | 13.7 | 17.8 | 11.8 | 14.0 | 18.0 |
| Escorts (ESCORT) | 1,487 | 1,325 | Hold | 18,228 | 71.2 | 67.7 | 78.2 | 20.9 | 22.0 | 19.0 | 13.5 | 14.5 | 12.0 | 18.7 | 14.7 | 15.1 | 16.2 | 13.6 | 13.8 |
| Hero Moto (HERHON) | 2,850 | 3,115 | Hold | 56,915 | 148.4 | 155.9 | 188.8 | 19.2 | 18.3 | 15.1 | 12.1 | 11.4 | 9.2 | 20.8 | 20.1 | 22.3 | 19.5 | 18.6 | 20.3 |
| M&M (MAHMAH) | 866 | 1,000 | Buy | 1,07,661 | 2.3 | 33.6 | 39.1 | 384.6 | 25.8 | 22.2 | 16.1 | 15.1 | 13.2 | 9.5 | 9.8 | 10.9 | 2.7 | 10.9 | 11.4 |
| Maruti Suzuki (MARUTI) | 7,485 | 6,400 | Reduce | 2,26,107 | 140.0 | 153.1 | 228.5 | 53.5 | 48.9 | 32.8 | 34.2 | 28.6 | 19.5 | 4.3 | 5.9 | 9.5 | 8.2 | 8.5 | 11.7 |
| Minda Industries (MININD) | 734 | 835 | Buy | 20,964 | 7.6 | 10.7 | 19.4 | 96.6 | 68.5 | 37.8 | 30.0 | 24.1 | 17.1 | 9.1 | 10.3 | 15.9 | 9.2 | 9.5 | 14.8 |
| Motherson (MOTSUM) | 234 | 270 | Buy | 73,896 | 3.3 | 5.4 | 9.0 | NM | 43.1 | 26.0 | 16.3 | 11.8 | 8.6 | 6.7 | 12.4 | 19.5 | 8.8 | 12.7 | 18.8 |
| Tata Motors (TATMOT) | 368 | 375 | Buy | 1,40,907 | -35.0 | 0.9 | 37.9 | NM | 427.3 | 9.7 | 5.9 | 5.6 | 3.7 | 6.3 | 7.9 | 14.8 | -23.6 | 0.6 | 20.3 |

Source: Company, ICICI Direct Research

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Sell: < -15%



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