

April 8, 2022

## 2-W plays spoilsport, operating leverage to allay RM pain

A revival in economic activity, cyclical recovery underway in the CV space, pick-up in retail sales volume (March 2022 retails at ~93% of pre-Covid levels), robust demand in PV segment amid improving chip supplies and interim rise in key raw material & crude prices due to geopolitical crisis were the key highlight for Q4FY22E. Total industry volumes in Q4FY22 are expected to decline ~3.6% QoQ with 2-W space continuing to play spoilsport with volume decline pegged at ~8% QoQ. Rest all categories (except tractors) witnessed healthy double digit sequential growth with CV space outperforming the pack with 20%+ QoQ growth. Building in conservative estimates we build in ~50 bps decline in gross margins for Q4FY22E amid management commentary last quarter suggesting low under-recoveries, however sequential uptick in volume is expected to largely offset the same. We expect our coverage universe to report 7.2% QoQ topline growth & ~100 bps QoQ decline in EBITDA margins to 11.0%. This ensures PAT growth is expected at 3.6% QoQ. However, YoY, operational performance still remains muted due to double digit volume decline (~19%) & high margins in base quarter Q4FY22 (~15%).

### Ashok Leyland, Maruti Suzuki to outshine in OEM pack

On the OEM front, in the 2-W space, Eicher Motors handsomely outperformed its peers with RE volumes up 9.5% QoQ while market leader Hero MotoCorp reported 8% QoQ volume decline and Baja Auto reporting 17.3% QoQ decline in total volumes (2-W+3-W). In the PV domain, Maruti Suzuki recorded 13.5% QoQ growth in volumes to 4.9 lakh units while Tata Motors' (TML) standalone volumes (PV+CV) jumped 22% to ~2.4 lakh units. M&M's automotive volumes were up 28.7% QoQ with tractors volumes at 0.73 lakh units, down 21.6% QoQ. Volumes at Ashok Leyland were up 43% QoQ 48,719 units. Our OEM universe is seen posting 7.6% QoQ growth in sales with by ~100 bps QoQ decline in margins to ~10.6%, primarily driven by outperformance in operations at Ashok Leyland & Maruti Suzuki India.

### Balkrishna Industries to lead recovery in ancillaries' space

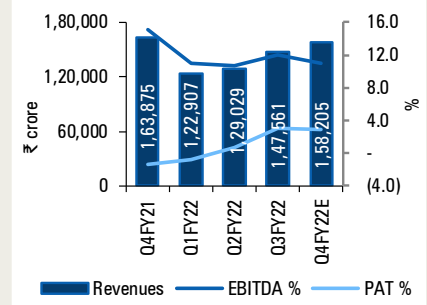
High base in foreign operations & mixed input price movement may cause auto ancillaries like Apollo Tyres to post a muted performance in Q4FY22. Balkrishna is expected to report a healthy performance QoQ amid healthy demand prospects, earlier than expected commissioning of new facility as well as recovery in EBITDA margins. Bharat Forge and Minda Industries are expected to report stable QoQ performance amid muted 2W demand & uptick in CV & PV space. The ancillary pack is seen posting ~2.3% QoQ sales growth with margins down 30 bps to 15.6%.

Exhibit 1: Estimates for Q4FY22E (₹ crore)

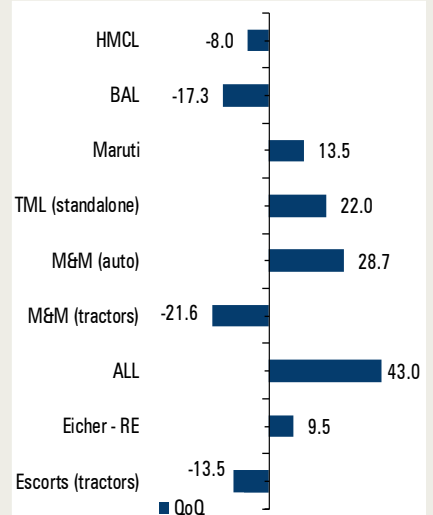
	Revenue Change (%)			EBITDA Change (%)			PAT Change (%)		
	Q4FY22E	YoY	QoQ	Q4FY22E	YoY	QoQ	Q4FY22E	YoY	QoQ
Apollo Tyres	5,627	14.2	(1.4)	662	(18.8)	(11.0)	170	(40.7)	(23.8)
Ashok Leyland	8,387	19.8	51.5	507	(5.1)	126.4	203	(15.9)	NM
Bajaj Auto	7,511	(12.6)	(16.7)	1,035	(32.1)	(24.5)	987	(25.9)	(18.7)
Balkrishna Industries	2,137	22.4	5.3	497	(8.2)	12.1	355	(4.5)	8.2
Bharat Forge	1,662	28.2	5.0	423	17.9	3.8	251	22.2	(25.6)
Eicher Motors	3,120	6.4	10.3	668	5.3	14.7	546	3.7	19.5
Escorts	1,766	(20.1)	(9.8)	212	(38.5)	(19.9)	168	(36.7)	(13.6)
Hero MotoCorp	7,326	(15.7)	(7.1)	819	(32.3)	(14.7)	550	(36.4)	(19.9)
M&M	17,196	27.3	12.8	1,965	9.8	8.8	1,115	NM	(17.6)
Maruti Suzuki	25,654	11.7	15.6	1,991	(0.0)	27.7	1,362	16.8	34.6
Minda Industries	2,339	4.5	7.2	253	(16.2)	7.3	110	(21.7)	8.5
Tata Motors	75,480	(14.0)	5.7	8,366	(42.8)	(7.6)	(1,264)	83.3	16.6
<b>Total</b>	<b>1,58,205.1</b>	<b>(3.5)</b>	<b>7.2</b>	<b>17,397.5</b>	<b>(29.5)</b>	<b>(1.5)</b>	<b>4,552.9</b>	<b>(313.2)</b>	<b>3.6</b>

Source: Company, ICICI Direct Research; LP = Loss to Profit, PL = Profit to Loss, NM = Not meaningful/absurd

### Topline & Profitability (Coverage Universe)



### Key players volume growth for Q4FY22 (%)



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

	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)
Steel (CRC)	74	65	13.4	74	-0.2
Aluminium	267	174	54.0	230	16.4
Rubber	166	158	4.6	177	-6.2
Plastics	143	130	10.3	169	-15.1

### Average currency movement against rupee

	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)
USD/INR	75.2	72.9	3.2	75.0	0.3
EUR/INR	84.4	87.9	-3.9	85.7	-1.6
GBP/INR	100.9	100.5	0.3	101.3	-0.4
JPY/INR	0.6	0.7	-6.3	0.7	-1.7

### Top Picks

Ashok Leyland  
Balkrishna Industries

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**Exhibit 2: Company Specific view - OEMs**

Company	Remarks
Ashok Leyland (ALL)	ALL is expected to report robust performance and outperform its peer in the OEM pack in Q4FY22. Total volumes for the quarter were at 48,719 units, up 43% QoQ with M&HCV: LCV ratio for the quarter was at 66:34 vs. 57:43 in Q3FY22. With 6.0% QoQ rise in ASPs at ₹ 17.2 lakh/unit, net sales at ALL are seen at ₹ 8,387 crore (up 51.5% QoQ). With operating leverage at play & marginal rise in input cost, EBITDA & EBITDA margins for the quarter are seen at ₹ 507 crores, 6% (up 200 bps QoQ). Ensuing PAT is seen at ₹ 203 crore vs. ₹ 5.8 crore in Q3FY22
Bajaj Auto (BAL)	BAL is expected to report a muted performance amid a sequential decline in volumes and rise in input costs (especially aluminium metal). For Q4FY22, BAL reported total sales volume of 9.8 lakh units, down 17.3% QoQ with exports share in volumes pegged at 60% vs. 56% in Q3FY22. The 3-W share in volume mix improved ~80 bps QoQ to 12%. With ~1.0% QoQ rise in ASPs at ₹ 75,027/unit, we expect net sales at ₹ 7,511 crore, down 16.7% QoQ. EBITDA in Q4FY22 is expected at ₹ 1,035 crore with EBITDA margins at 13.8%, down 140 bps QoQ. Consequent PAT for the quarter is expected at ₹ 987 crore, down 18.7% QoQ
Eicher Motors (EML)	EML is expected to report healthy operational performance in Q4FY22. Royal Enfield (RE) volumes for the quarter were at 1.9 lakh units, up 9.5% QoQ with product mix improved (share of >350 cc segment bikes at 17%, up 120 bps QoQ). Consequent consolidated net sales for Q4FY22 are expected at ₹ 3,120 crore, up 10.3% QoQ amid ~2% rise in ASPs at ₹ 1.68 lakh/unit. EBITDA in Q4FY22 is expected at ₹ 668 crore with EBITDA margins at 21.2%, up 200 bps QoQ. Consolidated PAT for Q4FY22 is expected at ₹ 546 crore, up 19.6% QoQ. VECV share of profits in Q4FY22 is expected at ₹ 49.4 crore (CV volumes up 25% QoQ at ~20K units)
Escorts (ESC)	Escorts is expected to report a muted performance in Q4FY22. Total tractor sales for the quarter came in at 21,895 units (down 13.5% QoQ) while construction equipment volumes were at 1,286 units (up 11.7% QoQ). Ensuing net sales for Q4FY22 are expected at ₹ 1,766 crore, down 9.8% QoQ. EBITDA in Q4FY22 is expected at ₹ 212 crore with corresponding EBITDA margins at 12%, down 150 bps QoQ, tracking negative operating leverage amid lower sales volumes. Consequent PAT in Q4FY22 is expected at ₹ 168 crore, down 13.6% QoQ
Hero MotoCorp (HMCL)	HMCL is expected to report muted performance in Q4FY22 with total 2-W sales volumes declining 8.0% QoQ to 11.88 lakh units. With ASPs expected to increase 1.0% QoQ to ₹ 61,620/unit, we expect net sales to decline 7.1% QoQ to ₹ 7,326 crore. EBITDA for Q3FY22 is expected at ₹ 819 crore with corresponding EBITDA margins at 11.2%, down 100 bps QoQ. Consequent PAT in Q4FY22 is expected at ₹ 550 crore, down 19.8% QoQ. Key monitorable in the results would be management commentary on readiness to launch its own EV scooter in coming months
M&M	M&M is expected to report a steady performance in Q4FY22. Total tractor sales volumes for the quarter were at 0.73 lakh units, down 21.6% QoQ while automotive volumes were up 28.7% QoQ to 1.56 lakh units. Net sales for Q3FY22 are seen up 12.8% QoQ to ₹ 17,196 crore with automotive ASPs seen at ~₹ 8.08 lakh/unit (up 2.5% QoQ) and tractor ASPs seen at ₹ 5.67 lakh/unit (up 1.0% QoQ). Standalone EBITDA for Q4FY22 is expected at ₹ 1,965 crore with EBITDA margins at 11.4%, down 50 bps QoQ. Standalone PAT for Q4FY22 is seen at ₹ 1,115 crore, down 17.6% QoQ
Maruti Suzuki (MSIL)	MSIL is expected to report healthy performance in Q4FY22. Net sales for the quarter is expected at ₹ 25,654 crore, up 15.6% QoQ driven by 13.5% QoQ growth in volumes at 4.89 lakh units & 2% QoQ rise in ASPs to ₹ 5.25 lakh/unit. Product mix for Q4FY22 is slightly adverse with share of UVs in total volumes at 15.7% vs. ~18.3% in Q3FY22. EBITDA for the quarter is expected at ₹ 1,991 crore with EBITDA margins at 7.4%, up 70 bps QoQ driven by operating leverage benefits. Ensuing PAT in Q4FY22 is expected at ₹ 1,362 crore, up 34.6% QoQ
Tata Motors (TML)	TML is expected to report a steady performance in Q4FY22 amid healthy volume growth in Indian operations and recovery underway at JLR. The spoilsport, however, could be costs implications for JLR amid ongoing geo-political crises. Total sales volume at Indian operations were at 2.4 lakh units, up 22% QoQ with JLR sales volume anticipated at 0.86 lakh units, up 4% QoQ. On a consolidated basis for Q4FY22, we expect TML to report net sales of ₹ 75,480 crore, up 5.7% QoQ. EBITDA in Q4FY22 is expected at ₹ 8,366 crore with corresponding EBITDA margins at 11.0%, down 150 bps QoQ. JLR's EBITDA margins are expected at 11.5% while the same for Indian operations is expected at 4.0%. At PAT level, we expect the company to report loss of ₹ 1,264 crore in Q4FY22 vs. loss of ₹ 1,516 crore clocked in Q3FY22

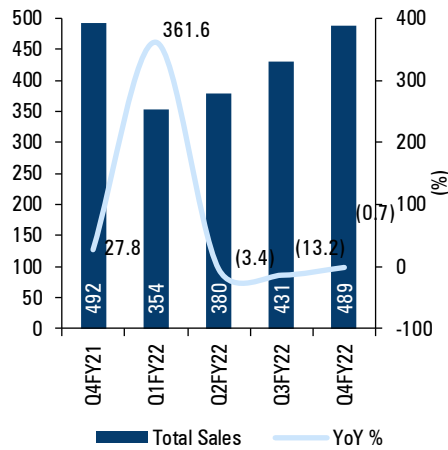
Source: Company, ICICI Direct Research

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

Company	Remarks
Minda Industries (MIL)	MIL is expected to report a stable performance in Q4FY22 with ~8% QoQ decline in industry volumes in the 2-W space and 15% QoQ growth in the PV segment, its key user industries. Net sales on a consolidated basis is expected at ₹ 2,339 crore, up 7.2% QoQ. EBITDA for the quarter is expected at ₹ 253 crore with corresponding EBITDA margins at 10.8%, flat QoQ. We expect operating leverage to largely subsume gross margin decline. PAT for Q4FY22 is expected at ₹ 110 crore, up 8.5% QoQ
Apollo Tyres (ATL)	ATL is expected to report muted performance in Q4FY22 tracking high sequential base in European business in Q3FY22 amid mixed RM price movement (decline in rubber prices, increase in price of crude derivatives). Standalone sales for the quarter are seen at ₹ 4,078 crore, up 8% QoQ. While sales at European operations are seen at ₹ 1,550 crore, down 19% QoQ. On a consolidated basis, net sales is expected at ₹ 5,627 crore, down 1.4% QoQ. EBITDA in Q4FY22 is expected at ₹ 662 crore with corresponding EBITDA margins at 11.8%, down 120 bps QoQ. Ensuing PAT for the quarter is expected at ₹ 170 crore, down 24% QoQ
Bharat Forge (BFL)	BFL is expected to report a stable operating performance in Q4FY22 largely tracking robust QoQ volumes growth in the domestic CV space and stable export prospects. On a standalone basis, we expect the company to report net sales of ₹ 1,662 crore, up 5% QoQ. EBITDA for Q4FY22 is seen at ₹ 423 crore with corresponding EBITDA margins at 25.2%, down 30 bps QoQ. Standalone PAT is expected at ₹ 251 crore, down 25.6% QoQ (high base in Q3FY22 due to exceptional gains)
Balkrishna Industries (BIL)	BIL is expected to report a healthy performance in Q4FY22. With new capacity in place, total tyre tonnage in Q4FY22 is expected at 72,762 tonne, up 3.4% QoQ. Consequent net sales is expected at ₹ 2,137 crore, up 5.3% QoQ amid calibrated price hike and marginal depreciation of the rupee against US\$. EBITDA in Q4FY22 is expected at ₹ 497 crore with corresponding EBITDA margins at 23.3%, up 150 bps QoQ. Ensuing PAT for Q4FY22 is expected at ₹ 355 crore, up 8% QoQ. Management guidance on demand prospects and margin trajectory will be key monitorables from the results

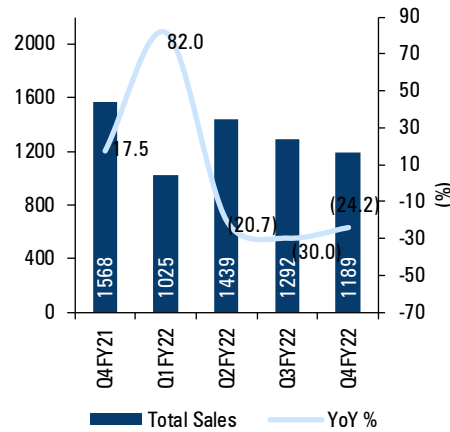
Source: Company, ICICI Direct Research

### MSIL volume performance ('000 units)



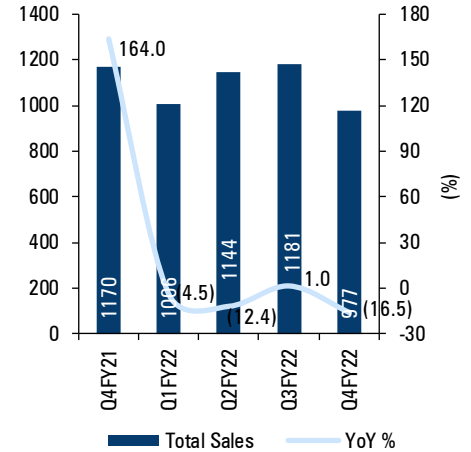
Source: Company, ICICIDirect Research

### HMCL volume performance ('000 units)



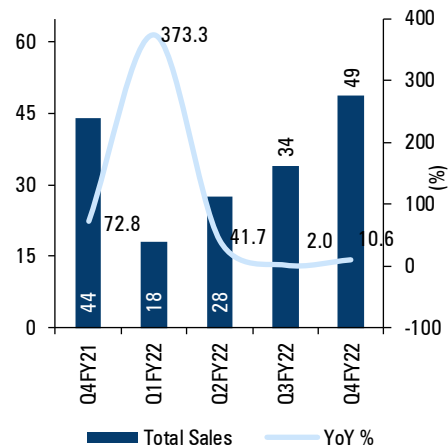
Source: Company, ICICIDirect Research

### BAL volume performance ('000 units)



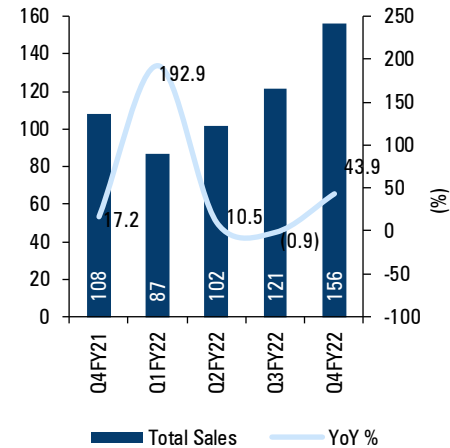
Source: Company, ICICIDirect Research

### ALL volume performance ('000 units)



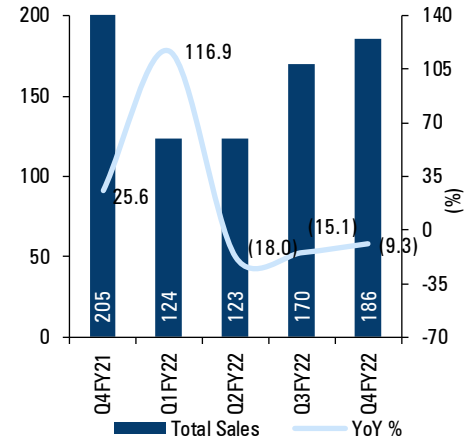
Source: Company, ICICIDirect Research

### M&M vol performance (automobile, '000 units)



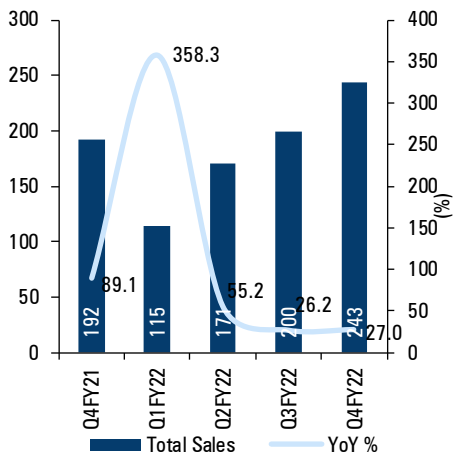
Source: Company, ICICIDirect Research

### EML volume performance (RE, '000 units)



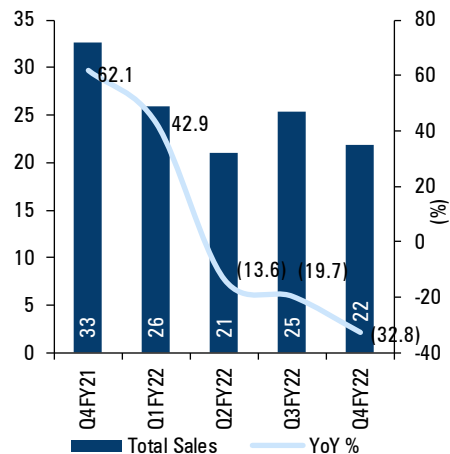
Source: Company, ICICIDirect Research

### Tata Motors (India Operations, '000 units)



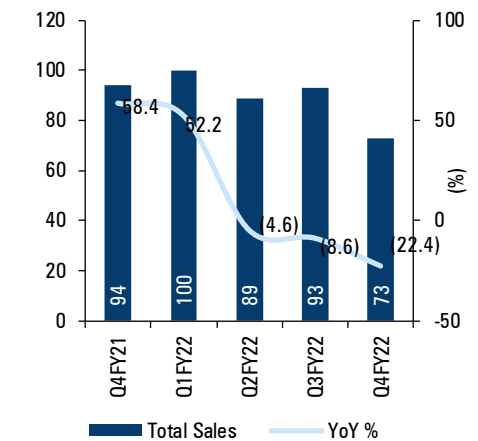
Source: Company, ICICIDirect Research

### Escorts (Tractors, '000 units)



Source: Company, ICICIDirect Research

### M&M (Tractors, '000 units)



Source: Company, ICICIDirect Research

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 (%)		
	(₹)	(₹)			FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Apollo Tyre (APOTYR)	198	270	Buy	12,542	11.0	15.5	23.3	17.9	12.7	8.5	6.4	4.9	3.6	6.4	8.3	11.5	5.9	7.8	10.8
Ashok Leyland (ASHLEY)	126	140	Buy	36,940	-0.8	1.3	3.7	-152.4	98.3	34.3	65.3	26.3	16.1	-1.1	6.5	14.4	-4.2	5.6	15.2
Bajaj Auto (BAAUTO)	3,787	3,370	Hold	1,09,584	159.2	172.8	189.5	23.8	21.9	20.0	17.5	16.0	14.3	18.2	19.5	21.4	18.0	19.1	20.6
Balkrishna Ind. (BALIND)	2,082	2,650	Buy	40,255	72.8	74.2	91.6	28.6	28.0	22.7	21.0	19.0	15.2	17.6	17.4	20.2	20.6	18.3	19.5
Bharat Forge (BHAFOR)	730	910	Buy	33,968	23.3	24.4	29.3	31.3	29.9	24.9	18.6	15.9	13.4	10.2	11.8	13.5	15.8	15.8	16.6
Eicher Motors (EICMOT)	2,524	2,535	Hold	68,975	57.9	83.5	100.5	43.6	30.2	25.1	29.2	20.7	17.1	12.6	16.3	17.2	12.7	16.3	17.3
Escorts (ESCORT)	1,631	2,050	Hold	21,515	53.8	66.1	78.1	30.3	24.7	20.9	17.9	15.8	12.9	10.0	10.0	10.6	9.0	10.1	10.9
Hero Moto (HERHON)	2,345	2,515	Hold	46,832	121.3	157.0	177.5	19.3	14.9	13.2	11.6	8.9	7.8	15.8	19.4	19.9	14.8	17.5	18.0
M&M (MAHMAH)	832	1,045	Buy	1,03,416	40.5	46.7	56.5	20.5	17.8	14.7	14.2	11.7	9.7	9.8	11.5	13.1	13.4	13.2	14.3
Maruti Suzuki (MARUTI)	7,658	7,750	Hold	2,31,327	105.1	180.4	258.4	72.8	42.5	29.6	37.7	23.4	16.6	4.0	8.4	12.0	5.9	9.5	12.5
Minda Industries (MININD)	950	1,115	Hold	27,141	10.7	17.1	24.2	88.4	55.5	39.2	32.6	25.0	19.0	9.9	13.5	17.8	9.5	13.3	16.0
Tata Motors (TATMOT)	451	550	Buy	1,72,650	-31.0	7.3	26.8	-14.5	61.5	16.9	8.7	6.0	4.5	3.1	9.5	15.1	-26.4	5.9	18.0

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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