

July 5, 2022

Margins to bottom out amid soft RM price outlook...

Near normal economic activity, healthy retail sales (Q1FY23 averaging at ~92% of pre-Covid levels), robust demand in PV segment amid new launches in the SUV domain, cut in excise duty on fuels (₹ 8/litre on petrol, ₹ 6/litre on diesel) in May 2022 and plummeting key raw material prices (mainly metals) towards the fag end of the quarter post their peak in April-May 2022 were the key highlights for Q1FY23E. Total industry volumes in Q1FY23 are expected to jump up ~10% QoQ led by the robust performance by the industry leader in the 2-W space with rest of the categories (PV, 3-W, CV) witnessing de-growth QoQ. Building in conservative estimates & quarterly lag of RM costs impact, we build in ~50 bps gross margin decline for our coverage companies in Q1FY23E. We expect our coverage universe (ex-Tata Motors) to report 1.5% QoQ topline growth & ~10 bps QoQ margin improvement to 12.2% with PAT expected to decline 9.7% QoQ primarily tracking exceptional gains in Q4FY22 (Ashok Leyland, Bajaj Auto). However, on a YoY basis, operational performance is likely to be robust at high double digit growth due to Covid impacted lower sales in the base year.

M&M, Maruti Suzuki to outperform OEM peers

On OEM front, in the 2-W space, Hero MotoCorp handsomely outperformed its peers with volumes up 16.9% QoQ while RE posted flat QoQ performance and Baja Auto reporting 4.4% QoQ decline in total volumes (2-W+3-W) tracking chip shortage. In the PV domain, Maruti Suzuki recorded 4.3% QoQ decline in volumes to 4.7 lakh units amid impending new Brezza launch while Tata Motors' (TML) standalone volumes (PV+CV) de-grew 5% to ~2.3 lakh units. M&M's automotive volumes were down 1.6% QoQ with tractor volumes at 1.18 lakh units, up 62.6% QoQ (seasonality impact). Volumes at Ashok Leyland were down 18.6% QoQ 39,651 units. Our OEM universe (ex-Tata Motors) is seen posting 1.9% QoQ growth in sales & ~20 bps QoQ expansion in margins to ~11.8%, primarily driven by outperformance in operations at Mahindra & Mahindra (M&M) & Maruti Suzuki India.

Marginally muted show seen for ancillary pack

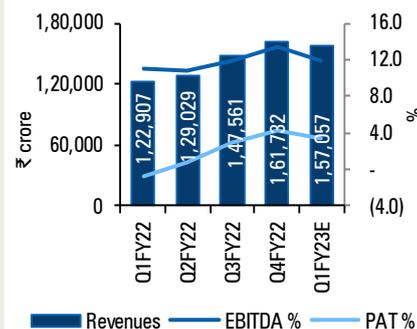
Steady demand prospects amid elevated input prices to cause auto ancillaries like Apollo Tyres post muted performance for Q1FY23. Bharat Forge is expected to post a healthy performance amid steady volume prints across CV, PV domains and better outlook for its industrials space (including Oil & Gas segment). Balkrishna Industries & Minda Industries are expected to report a stable QoQ performance. The ancillary pack is seen posting ~1.3% QoQ sales de-growth with margins down ~80 bps to 14.4%.

Exhibit 1: Estimates for Q1FY23E (₹ crore)

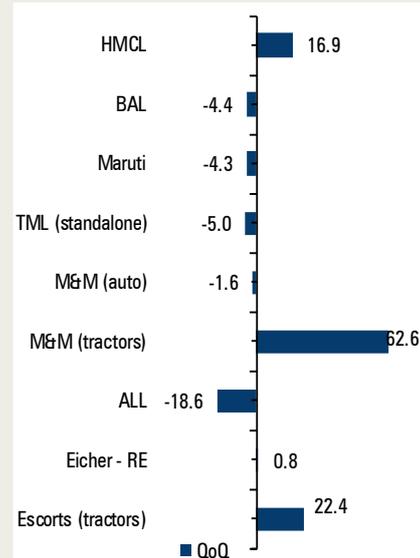
	Revenue Change (%)			EBITDA Change (%)			PAT Change (%)		
	Q1FY23E	YoY	QoQ	Q1FY23E	YoY	QoQ	Q1FY23E	YoY	QoQ
Apollo Tyres	5,390	17.6	(3.4)	538	(5.1)	(14.1)	70	(45.2)	(38.3)
Ashok Leyland	6,976	136.4	(20.2)	457	LP	(41.1)	161	LP	(82.1)
Bajaj Auto	7,525	1.9	(5.6)	1,204	7.5	(11.8)	1,120	5.6	(23.7)
Balkrishna Ind.	2,462	35.8	3.7	501	(2.2)	0.4	330	(0.5)	(11.8)
Bharat Forge	1,666	21.4	(0.5)	417	6.6	(3.3)	243	46.0	(7.1)
Eicher Motors	3,286	66.4	2.9	745	105.4	(1.5)	601	153.4	(1.5)
Escorts	2,062	23.4	10.8	258	10.5	5.9	218	25.0	12.7
Hero MotoCorp	8,852	61.3	19.3	1,095	112.7	32.3	794	117.2	26.5
M&M	19,677	67.3	14.9	2,477	51.8	27.3	1,658	93.7	28.3
Maruti Suzuki	24,847	47.9	(2.6)	2,397	192.0	(1.2)	1,752	297.5	(4.7)
Minda Industries	2,371	47.9	(1.8)	261	77.8	(5.3)	120	675.9	(17.1)
Tata Motors	71,944	9.8	(7.6)	8,236	12.8	(28.3)	(1,772)	60.2	(71.6)
Total (ex-Tamo)	85,113.2	48.3	1.5	10,351.6	68.0	1.7	7,066.6	102.3	(9.7)

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 Q1FY23 (%)



Average commodity price movement (₹/kg)

	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)
Steel (CRC)	77	65	17.5	74	3.6
Aluminium	251	196	27.8	267	-6.2
Rubber	174	168	3.3	166	4.7
Plastics	153	141	8.5	141	8.5

Average currency movement against rupee

	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)
USD/INR	77.3	73.8	4.7	75.2	2.7
EUR/INR	82.2	88.6	-7.2	84.4	-2.6
GBP/INR	97.0	102.8	-5.7	100.9	-3.9
JPY/INR	0.6	0.7	-11.4	0.6	-8.0

Top Picks

Mahindra & Mahindra
Maruti Suzuki

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Exhibit 2: Company Specific view - OEMs

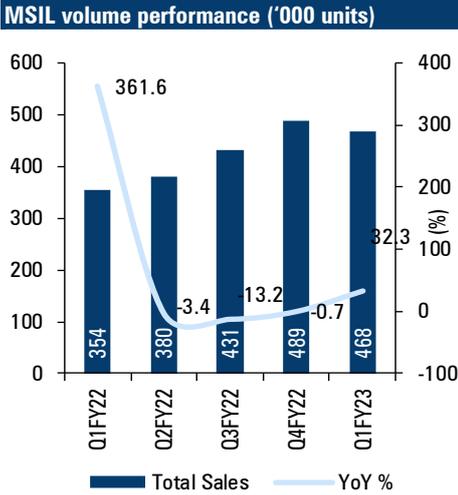
Company	Remarks
Ashok Leyland (ALL)	ALL is expected to report a muted performance in Q1FY23 amid 19% sequential decline in volumes for the quarter at 39,651 units. M&HCV: LCV ratio for the quarter was at 63:37 vs. 66:34 in Q4FY22. With 2% QoQ decline in ASPs at ₹ 17.6 lakh/unit, net sales at ALL are seen at ₹ 6,976 crore (down 20.2% QoQ). With negative operating leverage at play & marginal rise in input cost, EBITDA & EBITDA margins for the quarter are seen at ₹ 457 crore, 6.6% (down 230 bps QoQ). Consequently PAT is seen at ₹ 161 crore vs. ₹ 901 crore in Q4FY22 (included exceptional gains as well)
Bajaj Auto (BAL)	BAL is expected to report a muted performance amid marginal QoQ decline in volumes and rise in input costs. For Q1FY23, BAL reported total sales volume of 9.3 lakh units, down 4.4% QoQ with exports share in volumes pegged at 62% vs. 60% in Q4FY22. The 3-W share in volume mix is down ~300 bps QoQ to 9%. Consequently, with ~1.0% QoQ decline in ASPs at ₹ 78,255/unit, we expect net sales at ₹ 7,525 crore, down 5.6% QoQ. EBITDA in Q1FY23 is expected at ₹ 1,204 crore with EBITDA margins at 16.0%, down 110 bps QoQ. Consequent PAT for the quarter is expected at ₹ 1,120 crore, down 23.7% QoQ (included exceptional gains amounting to ₹ 315 crore)
Eicher Motors (EML)	EML is expected to report a steady operational performance in Q1FY23. Royal Enfield (RE) volumes for the quarter were at 1.9 lakh units, up 1% QoQ with sustained product mix (share of >350 cc segment bikes at 17%, flat QoQ). Consequent consolidated net sales for Q1FY23 are expected at ₹ 3,286 crore, up 2.9% QoQ amid ~2% rise in ASPs at ₹ 1.73 lakh/unit. EBITDA in Q1FY23 is expected at ₹ 745 crore with EBITDA margins at 22.7%, down 100 bps QoQ. Consolidated PAT for Q1FY23 is expected at ₹ 601 crore, down 1.5% QoQ. VECV share of profits in Q1FY23 is expected at ₹ 41.5 crore (CV volumes down 13% QoQ at ~17,500 units)
Escorts (ESC)	Escorts is expected to report a healthy performance in Q1FY23. Total tractor sales for the quarter came in at 26,797 units (up 22% QoQ) while construction equipment volumes were at 966 units (down 25% QoQ). Ensuing net sales for Q1FY23 are expected at ₹ 2,062 crore, up 10.8% QoQ. EBITDA in Q1FY23 is expected at ₹ 258 crore with corresponding EBITDA margins at 12.5%, down 60 bps QoQ, tracking marginally higher raw material costs. Consequent PAT in Q1FY23 is expected at ₹ 218 crore, up 12.7% QoQ
Hero MotoCorp (HMCL)	HMCL is expected to report a healthy performance in Q1FY23 with total 2-W sales volumes increasing 17% QoQ to 13.9 lakh units. With ASPs expected to increase 2.0% QoQ to ₹ 63,675/unit, we expect net sales to increase 19.3% QoQ to ₹ 8,852 crore. EBITDA for Q1FY23 is expected at ₹ 1,095 crore with EBITDA margins at 12.4%, up 120 bps QoQ. Margin decline in gross margins is made good by operating leverage benefits at play. Consequent PAT in Q1FY23 is expected at ₹ 794 crore, up 26.5% QoQ. Key monitorables would be management commentary on captive 2-W EV launch
M&M	M&M is expected to report a healthy performance in Q1FY23 and outperform its peers in the OEM pack. Total tractor sales volumes for the quarter were at 1.19 lakh units, up 62.6% QoQ (seasonality impact) while automotive volumes were nearly flat QoQ at 1.53 lakh units. Consequent net sales for Q1FY23 are seen up 14.9% QoQ to ₹ 19,677 crore with automotive ASPs seen at ~₹ 7.9 lakh/unit (up 2.0% QoQ) and tractor ASPs seen at ₹ 6 lakh/unit (up 1.0% QoQ). Standalone EBITDA for Q1FY23 is expected at ₹ 2,477 crore with EBITDA margins at 12.6%, up 120 bps QoQ. This is also driven by higher share of margin accretive tractor sales volume in the overall sales mix, which for the quarter was at ~44% vs. ~32% in Q4FY22. Standalone PAT for Q1FY22 is seen at ₹ 1,658 crore, up 28.3% QoQ
Maruti Suzuki (MSIL)	MSIL is expected to report a steady performance in Q1FY23. Net sales for the quarter is expected at ₹ 24,847 crore, down 2.6% QoQ amid 4.3% QoQ de-growth in volumes at 4.7 lakh units & 1.7% QoQ rise in ASPs to ₹ 5.3 lakh/unit. Product mix for Q1FY23 improved with share of UVs in total volumes at 17.3% vs. 15.7% in Q4FY22. EBITDA for the quarter is expected at ₹ 2,397 crore with EBITDA margins at 9.2%, up 10 bps QoQ. We expect MSIL to benefit from ~8% appreciation of the rupee against Japanese Yen. Consequent, PAT is expected at ₹ 1,752 crore, down 4.7% QoQ
Tata Motors (TML)	TML is expected to report a muted performance in Q1FY23 primarily tracking subdued show at JLR amidst Covid led lockdowns in china, partially guided by the management in the last conference call. Total sales volume at Indian operations were at 2.3 lakh units, down 5% QoQ with JLR sales volume anticipated at 0.82 lakh units, down 8.6% QoQ. On a consolidated basis for Q1FY23, we expect TML to report net sales of ₹ 71,944 crore, down 7.6% QoQ. EBITDA in Q1FY23 is expected at ₹ 8,236 crore with corresponding EBITDA margins at 11.4%, down 330 bps QoQ. JLR's EBITDA margins are expected at 10.5%. At PAT level, we expect the company to report loss of ₹ 1,772 crore in Q1FY23 vs. loss of ₹ 1,033 crore clocked in Q4FY22

Source: Company, ICICI Direct Research

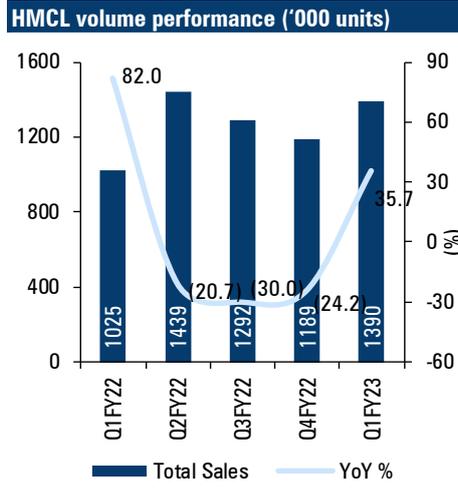
Exhibit 3: Company Specific view - Ancillaries

Company	Remarks
Minda Industries (MIL)	MIL is expected to report a stable performance in Q1FY23 largely tracking the volume readings in the 2-W & PV domain i.e. its key user industries and penchant to grow ahead of industry. Net sales on a consolidated basis is expected at ₹ 2,371 crore, down 1.8% QoQ. EBITDA for the quarter is expected at ₹ 261 crore with corresponding EBITDA margins at 11%, down 40 bps QoQ largely effected by gross margin decline. PAT for Q1FY23 is expected at ₹ 120 crore, down 17% QoQ
Apollo Tyres (ATL)	ATL is expected to report a muted performance in Q1FY23 tracking steady demand prospects across Indian & European markets and increase in RM prices (natural rubber as well as crude derivatives). Standalone sales for the quarter are seen at ₹ 3,950 crore, flat QoQ with EBITDA margins at 8.2% (down 120 bps QoQ). On a consolidated basis, net sales is expected at ₹ 5,390 crore, down 3.4% QoQ. EBITDA in Q1FY23 is expected at ₹ 538 crore with EBITDA margins at 10.0%, down 120 bps QoQ. Ensuing PAT for the quarter is expected at ₹ 70 crore, down 38.3% QoQ
Bharat Forge (BFL)	BFL is expected to report a steady operating performance in Q1FY23 largely tracking stable demand prospects across domestic and export markets including oil & gas and industrials space. On a standalone basis, we expect the company to report net sales of ₹ 1,666 crore, down 1% QoQ. EBITDA for Q1FY23 is seen at ₹ 417 crore with corresponding EBITDA margins at 25%, down 80 bps QoQ. Standalone PAT is expected at ₹ 243.3 crore, down 7% QoQ
Balkrishna Industries (BIL)	BIL is expected to report a healthy performance in Q1FY23. With new capacity in place, total tyre tonnage in Q1FY23 is expected at 75,469 tonne, up 10% YoY but down 2% QoQ. Consequent net sales is expected at ₹ 2,462 crore, up 3.7% QoQ amid depreciation of the rupee against US\$. EBITDA in Q1FY23 is expected at ₹ 501 crore with corresponding EBITDA margins at 20.4%, down 60 bps QoQ. Ensuing PAT for Q1FY23 is expected at ₹ 330 crore, down 11.8% QoQ. (aided by lower other income)

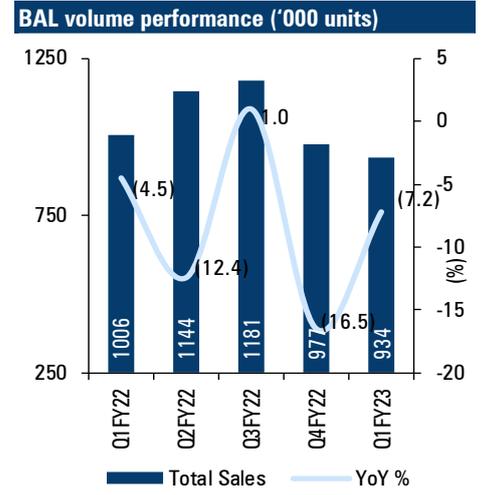
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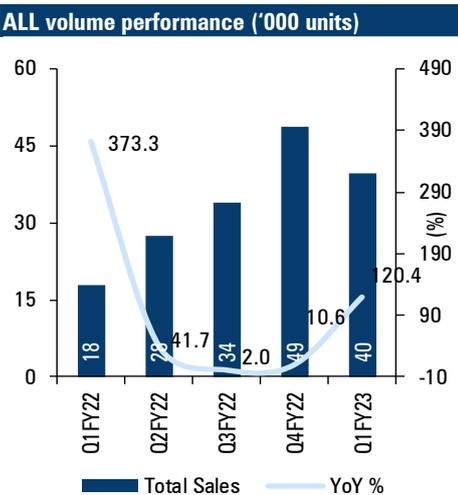
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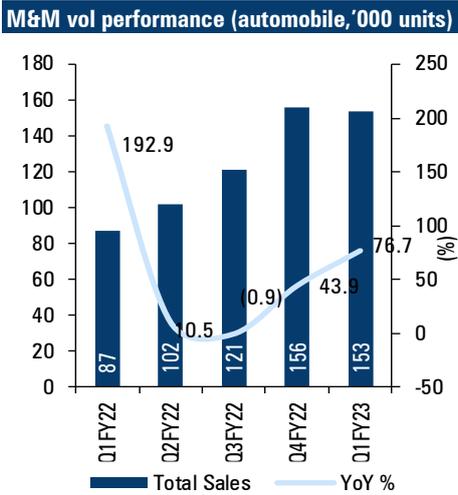
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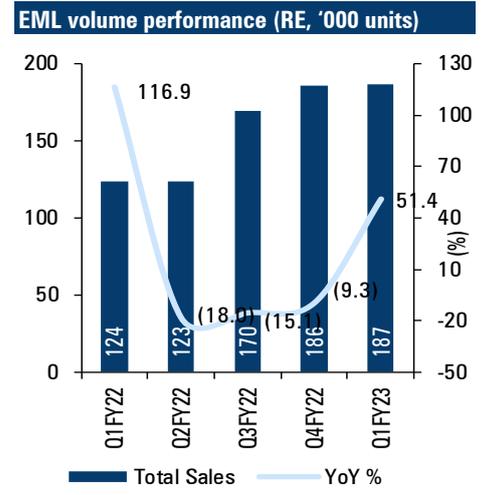
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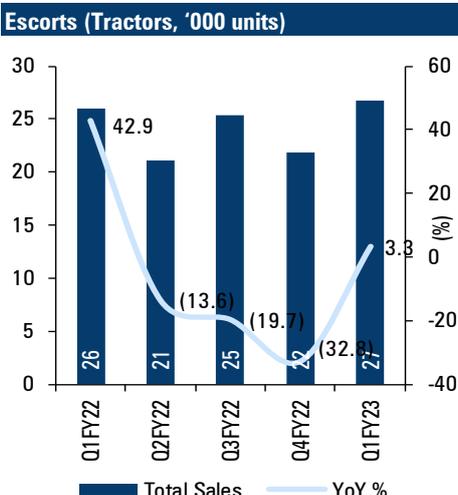
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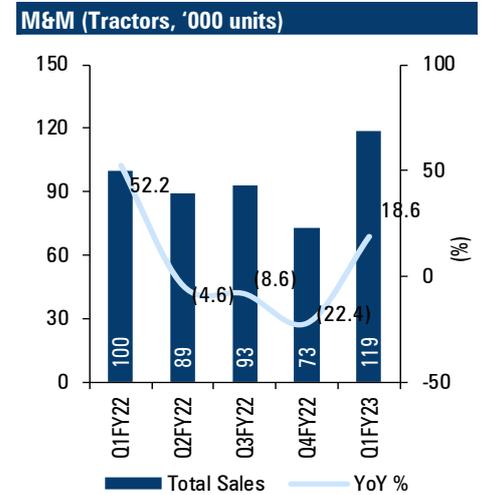
Source: Company, ICICI Direct Research



Source: Company, ICICI Direct Research



Source: Company, ICICI Direct Research



Source: Company, ICICI Direct 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 (%)		
	(₹)	(₹)				FY22P	FY23E	FY24E	FY22P	FY23E	FY24E	FY22P	FY23E	FY24E	FY22P	FY23E	FY24E	FY22P	FY23E	FY24E
Apollo Tyre (APOTYR)	186	230	Buy		11,818	10.1	12.7	19.4	18.5	14.6	9.6	6.4	5.5	4.2	6.3	7.3	10.3	5.4	6.6	9.4
Ashok Leyland (ASHLEY)	145	160	Buy		42,370	1.8	2.1	4.6	78.4	70.3	31.3	43.3	24.5	15.2	2.1	8.5	17.0	0.2	7.9	16.2
Bajaj Auto (BAAUTO)	3,678	3,950	Hold		1,06,430	173.4	183.4	204.1	21.2	20.1	18.0	15.8	14.1	12.5	18.4	19.9	21.6	17.6	19.1	20.5
Balkrishna Ind. (BALIND)	2,203	2,475	Buy		42,590	73.0	81.4	103.2	30.2	27.1	21.4	22.4	18.2	14.2	15.9	18.0	21.7	20.4	19.4	20.7
Bharat Forge (BHAFOR)	658	840	Buy		30,614	23.1	23.9	30.0	28.4	27.5	21.9	16.7	14.7	12.3	9.6	10.7	12.6	15.2	15.1	16.8
Eicher Motors (EICMOT)	2,809	2,480	Hold		76,774	61.3	87.6	107.2	45.8	32.1	26.2	31.5	22.4	18.2	13.3	17.3	18.7	13.3	16.9	18.2
Escorts Kubota (ESCORT)	1,497	1,840	Hold		19,751	55.8	70.1	82.2	26.8	21.4	18.2	15.7	12.8	10.4	10.4	10.9	11.5	9.3	10.6	11.2
Hero Moto (HERHON)	2,736	2,495	Hold		54,638	123.8	156.1	176.3	22.1	17.5	15.5	13.8	10.8	9.5	16.3	20.7	22.2	15.7	18.7	19.9
M&M (MAHMAH)	1,083	1,315	Buy		1,34,651	41.3	47.6	59.7	26.2	22.8	18.1	18.4	15.0	12.1	9.3	11.3	13.5	13.1	13.1	14.7
Maruti Suzuki (MARUTI)	8,360	9,630	Buy		2,52,525	124.7	232.7	321.0	67.0	35.9	26.0	37.2	21.5	15.6	5.1	10.8	14.1	7.0	11.9	14.7
Minda Industries (MININD)	972	1,050	Buy		27,749	12.5	19.1	25.0	78.0	50.8	38.9	32.0	24.7	20.0	10.2	13.1	15.9	10.3	13.9	15.6
Tata Motors (TATMOT)	412	500	Buy		1,57,870	-29.9	1.7	21.1	-13.8	246.3	19.6	6.9	5.6	4.1	4.8	8.1	13.7	-23.4	1.3	14.0

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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