

Jul-Sep'22 Earnings Preview

Festive season & easing supply issues aid sales

Quick Pointers:

- Aggregate revenues in our OEM coverage universe to grow by 9% QoQ.
- Aggregate EBITDA margins (excl JLR) to expand by ~100bps QoQ owing to reduction in RM costs, price hikes and operating leverage.

In 2QFY23, passenger vehicle (PV) segment outperformed other segments with ~15% QoQ volume growth supported by easing chip supplies and pent-up festive season demand. With semiconductor supply now normalizing, PV OEMs are serving their already healthy order book, mitigating longer waiting periods. Two-wheeler (2W) segment has also witnessed a healthy ~10% QoQ growth, largely supported by festive season and premiumisation trend. Commercial vehicle (CV) segment continues to witness stable growth, +4% QoQ. On ground situation is steady as fleet utilization levels are healthy, led by increased economic and infrastructural activities. For our OEM coverage universe, we expect (1) aggregate revenue growth of ~9% QoQ, (2) gross margin improvement (~50bps), led by lag impact of commodity prices stabilizing in the previous quarter and (3) EBITDA margin expansion of ~100bps QoQ. From 3QFY23 onwards, we expect margin expansion for auto OEMs driven by softening of commodity prices, price hikes and new model launches.

We believe that the premiumisation trend will continue to play out across segments. In PVs, OEMs (with focus on SUVs like Tata Motors and M&M) will continue to do well. In 2Ws, Eicher Motors and TVS will fare better than others led by premium bikes/scooters in its portfolio and new model launches. Our top picks are Ashok Leyland, Mahindra and Eicher Motors.

We expect revenue expansion of 9% QoQ for our auto OEM coverage universe led by ~10% improvement in volumes. Volumes have grown across segments (2Ws - +10% QoQ, PVs - +15% QoQ, CVs - +4% QoQ) as supply chain issue is now easing out and consumer sentiments are at a high-point due to post-COVID festive season, thereby leading to pent-up demand.

We built in aggregate EBITDA margin expansion of ~100bps QoQ for our auto OEM coverage universe supported by 1) some pressure off the RM costs, 2) improving chip supplies leading to higher volumes and 3) festive demand. We build in margin expansion across OEMs, however, we expect Bajaj Auto's margin to expand merely by 30bps QoQ, despite 23% increase in volumes, owing to weak exports (exports as % of sales down to 40% vs 62% QoQ) and deteriorated product mix.

Gross margins for most OEMs to improve by ~50bps led by lag impact of commodity prices stabilizing in the previous quarter. Going ahead, we expect a positive impact on auto margins along with any price hikes taken by the companies, owing to recent QoQ correction in metal prices - aluminum (-14%), lead (-7%), copper (-15%) and Chinese HRC steel (-20%)

October 6, 2022

Exhibit 1: PL Coverage

Company Name	Rating	CMP (Rs)	TP (Rs)
Ashok Leyland	BUY	156	200
Bharat Forge	BUY	707	875
Bajaj Auto	HOLD	3,582	3,765
CEAT	Acc	1,561	1,700
Eicher Motors	BUY	3,548	4,225
Endurance Tech.	BUY	1,412	1,590
Exide Industries	UR	157	NA
Hero Motocorp	BUY	2,615	3,175
M&M	BUY	1,262	1,500
Maruti Suzuki	BUY	8,682	9,500
Tata Motors	BUY	408	570
TVS Motors	BUY	1,036	1,085

Source: Company, PL

UR = Under Review / Acc=Accumulate

Top Picks

Ashok Leyland

Mahindra & Mahindra

Eicher motors

Mansi Lall

mansilall@plindia.com | 91-22-66322391

We believe that the premiumisation trend will continue to play out across segments. In PVs, OEMs with focus on SUVs (Tata Motors and M&M) will continue to do well, as SUVs are grabbing larger share of the PV pie; along with chip issue easing out. Maruti, owing to its distribution and reach is also expected to do well with New Brezza and Grand Vitara. In 2Ws, Eicher Motors and TVS will fare better than others on the back of demand continuation for premium bikes and new model launches.

Key target price and earnings change:

Over the last 6 months, Nifty Auto index outperformed Nifty index. Nifty Auto grew ~15% vs 0% of Nifty on the back of improving sentiments driven by 1) semiconductor supply easing out, 2) expectations of gross margin improvement and 3) successful new model launches.

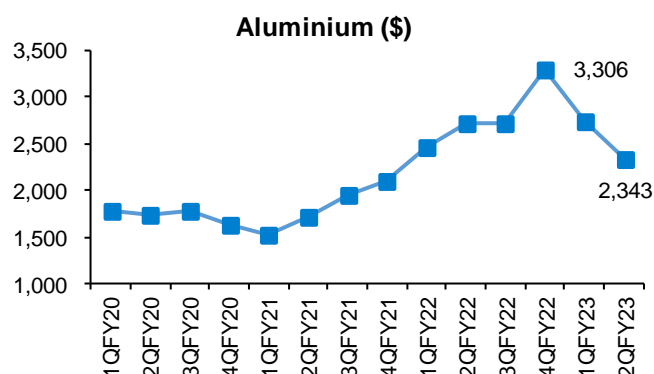
However, there remains concern for OEMs with exposure to global markets owing to inflationary scenario across countries and rate hikes. We reduce our target P/E multiple for Bajaj Auto (17x to 16x), Bharat Forge (30x to 28x) and Endurance (30x to 27x) to factor in fear of global recession. We roll forward and now value all our stocks on Sep-24E. We value Maruti Suzuki on 26x Sep-24E EPS with a target price of Rs 9,500 (inline with its long term average, 28x earlier). The stock is trading at 37.3/26.5/21.5x on FY23/24/25E EPS.

We also assign 'Accumulate' rating to CEAT (Under Review earlier). The company is expected to witness better margins in 2HFY23, led by recovery in demand and easing of commodity prices. We expect OEM demand to remain strong from PV and 2W segments. Export momentum is expected to continue, on the back of new products and improving distribution reach in US and Europe. However, growth in replacement segment (55-60% of the mix) is slower than OEM segment.

Top picks

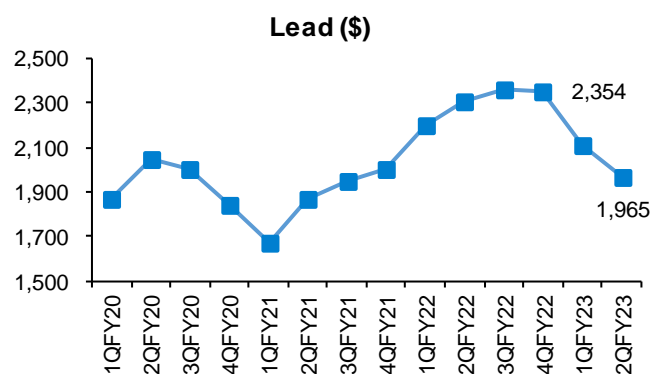
- **AL (CMP Rs 156, TP Rs 200):** Recovery in CVs to continue led by (1) economic recovery benefitting demand from Infra, Mining and e-com. segments and (2) AL de-risking MHCV through- (a) New launches in LCV to gain market share and (b) Increased focus on spares and exports business. Furthermore, with launch of CNG models we expect AL to regain part of its market share.
- **MM (CMP Rs 1,262, TP Rs 1,500):** We prefer MM in the PV space given (1) healthy turnaround with back-to-back successful launches in highly competitive SUV space (2) its proactiveness to leverage EV trend for value unlocking (3) strong leadership position in tractor industry and (4) well-played out capital allocation strategy.
- **EIM (CMP Rs 3,548, TP Rs 4,225):** We remain positive on Eicher Motors owing to 1) volume growth from new product launches, 2) rising export volumes from channel expansion and 3) margin expansion led by improved operating leverage, better realization from export markets and significant reduction in raw material costs.

Exhibit 2: Aluminum prices corrected 14% QoQ



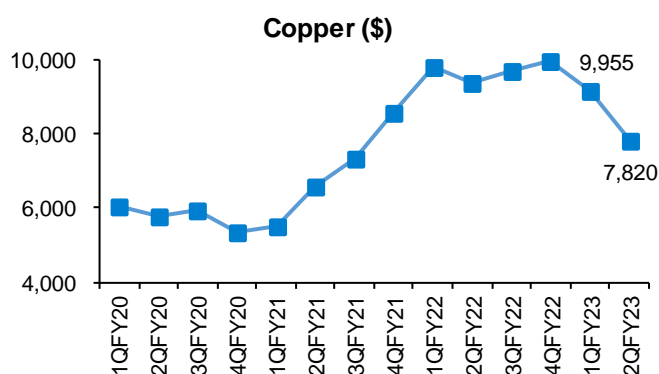
Source: Bloomberg, PL

Exhibit 3: Lead prices corrected 7% QoQ



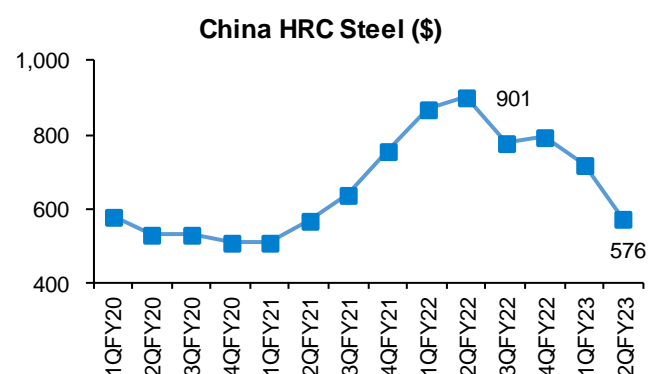
Source: Bloomberg, PL

Exhibit 4: Copper prices corrected 15% QoQ



Source: Bloomberg, PL

Exhibit 5: China HRC steel prices corrected 20% QoQ



Source: Bloomberg, PL

Exhibit 6: Volume summary 2QFY23

Company	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	QoQ gr. (%)	YoY gr. (%)
Ashok Leyland	17,987	27,543	34,077	48,719	39,651	45,295	14.2	64.5
- MHCV	9,050	13,514	19,305	32,016	24,987	27,841	11.4	106.0
- LCV	8,937	14,029	14,772	16,703	14,664	17,454	19.0	24.4
Bajaj Auto	1,006,014	1,144,407	1,181,361	975,129	933,646	1,151,012	23.3	0.6
- 2W	899,305	1,029,915	1,048,545	859,091	847,158	1,019,034	20.3	(1.1)
- CV	106,709	114,492	132,816	116,038	86,488	131,978	52.6	15.3
Eicher	129,446	138,561	185,570	205,768	204,674	225,380	10.1	62.7
- 2W	123,640	123,427	169,526	185,675	187,205	207,764	11.0	68.3
- CV	5,806	15,134	16,044	20,093	17,469	17,616	0.8	16.4
Escorts	25,935	21,073	25,325	21,895	26,797	23,703	(11.5)	12.5
Hero Motocorp	1,024,507	1,438,552	1,292,135	1,298,000	1,390,192	1,428,168	2.7	(0.7)
Maruti	353,614	379,541	430,668	488,830	467,931	517,395	10.6	36.3
M&M	186,777	190,600	214,134	228,784	271,971	273,223	0.5	43.3
- Auto	86,848	101,680	121,167	155,902	153,462	179,683	17.1	76.7
- Tractors	99,929	88,920	92,967	72,882	118,509	93,540	(21.1)	5.2
Tata Motors	114,531	170,820	189,531	233,078	231,046	242,861	5.1	42.2
- PV	64,386	83,933	99,002	123,051	130,125	142,325	9.4	69.6
- CV	50,145	86,887	90,529	110,027	100,921	100,536	(0.4)	15.7
TVS	657,758	916,705	878,659	856,456	906,791	1,027,437	13.3	12.1
- 2W	618,701	869,552	834,768	814,682	860,795	976,926	13.5	12.3
- 3W	39,057	47,153	43,891	41,774	45,996	50,511	9.8	7.1

Source: Company, PL

Exhibit 7: Q2FY23 Result Preview

Company Name		Q2FY23	Q2FY22	YoY gr. (%)	Q1FY23	QoQ gr. (%)	Remark
Ashok Leyland	Sales	83,335	44,579	86.9	72,229	15.4	We expect revenue growth of ~15% QoQ owing to a 14% growth in volumes. EBITDA margin expected at 6.4%, expansion of 200bps, led by steady CV volumes, higher share of MHCVs in the mix and price hikes.
	EBITDA	5,333	1,347	296.0	3,203	66.5	
	Margin (%)	6.4	3.0		4.4		
	PBT	3,086	-1,157	NA	946	226.1	
	Adj. PAT	2,315	-832	NA	598	286.9	
Bharat Forge	Sales	18,481	16,066	15.0	17,594	5.0	Revenues to improve QoQ led by improving demand in domestic and exports CV market and improving demand in industrial space. Class-8 CV sales is likely to witnessed 10% QoQ growth. Margins to expand QoQ due to volume expansion and price pass ons.
	EBITDA	4,842	4,853	(0.2)	4,351	11.3	
	Margin (%)	26.2	30.2		24.7		
	PBT	3,719	4,008	(7.2)	3,282	13.3	
	Adj. PAT	2,789	3,118	(10.5)	2,459	13.4	
Bajaj Auto	Sales	96,751	87,622	10.4	80,050	20.9	We expect revenue growth of 21% QoQ led by 23% increase in volumes. We expect merely 30bps of improvement in margin as the export volumes were affected in the quarter, which led to a poor product mix.
	EBITDA	15,964	14,011	13.9	12,970	23.1	
	Margin (%)	16.5	16.0		16.2		
	PBT	18,307	16,521	10.8	15,447	18.5	
	Adj. PAT	13,913	12,746	9.2	11,733	18.6	
CEAT	Sales	30,189	24,323	24.1	28,031	7.7	We expect revenue growth of 8% QoQ led by volume improvement. Margin expansion on the back of easing out commodity prices.
	EBITDA	2,204	2,163	1.9	1,642	34.2	
	Margin (%)	7.3	8.9		5.9		
	PBT	455	496	(8.2)	42	983.3	
	Adj. PAT	341	363	(6.1)	31	1,012.0	
Eicher Motors	Sales	36,227	22,496	61.0	33,975	6.6	We expect 11.5% increase in standalone revenues led by 11% growth in RE volumes. EBITDA margin expansion of ~50-60bps, due to change in product mix. We expect consolidated PAT to grow by 11% QoQ.
	EBITDA	9,020	4,699	92.0	8,311	8.5	
	Margin (%)	24.9	20.9		24.5		
	PBT	8,319	4,659	78.5	7,583	9.7	
	Adj. PAT	6,758	3,732	81.1	6,107	10.7	
Endurance Technologies	Sales	22,609	18,876	19.8	21,138	7.0	We expect consolidated revenues to increase by 7% QoQ led by 10% increase in standalone revenues owing to increased production volumes for 2W, order book being serviced and higher realizations. We expect weak trend to continue in the European subsidiary.
	EBITDA	2,756	2,600	6.0	2,398	15.0	
	Margin (%)	12.2	13.8		11.3		
	PBT	1,744	1,724	1.2	1,434	21.6	
	Adj. PAT	1,346	1,333	1.0	1,157	16.4	
Hero Motocorp	Sales	87,942	84,534	4.0	83,925	4.8	We expected revenue growth of 5% QoQ owing to 3% increase in volumes. EBITDA margin to improve on the back of easing RM costs and price hikes. PAT growth of 17% QoQ.
	EBITDA	10,641	10,664	(0.2)	9,408	13.1	
	Margin (%)	12.1	12.6		11.2		
	PBT	9,637	10,529	(8.5)	8,238	17.0	
	Adj. PAT	7,295	7,944	(8.2)	6,245	16.8	
Mahindra & Mahindra	Sales	2,05,629	1,33,054	54.5	1,96,126	4.8	We expect 5% increase in revenue largely led by change in product mix. Overall volumes were flat QoQ. EBITDA margins to improve led by easing RM costs and higher share of SUVs in the mix.
	EBITDA	25,292	16,598	52.4	23,410	8.0	
	Margin (%)	12.3	12.5		11.9		
	PBT	20,898	21,415	(2.4)	18,292	14.2	
	Adj. PAT	15,883	16,867	(5.8)	14,711	8.0	

Company Name		Q2FY23	Q2FY22	YoY gr. (%)	Q1FY23	QoQ gr. (%)	Remark
Maruti Suzuki	Sales	2,97,406	2,05,389	44.8	2,64,998	12.2	Maruti's revenue to increase 12% QoQ led by 10% increase in volumes. Volumes were supported by pent-up festive season demand. Maruti's volumes have been under stress due to the pressure in the entry level segment. We expect a EBITDA margin expansion of 180bps QoQ on the back of RM cost easing out, improved volumes and price hikes.
	EBITDA	26,766	8,549	213.1	19,121	40.0	
	Margin (%)	9.0	4.2		7.2		
	PBT	21,711	5,990	262.5	13,218	64.3	
	Adj. PAT	16,500	4,753	247.2	10,128	62.9	
Tata Motors	Sales	7,62,137	6,13,788	24.2	7,19,347	5.9	Tata Motors' standalone revenue to largely remain flat QoQ owing to flat volumes. EBITDA margin to expand by ~80bps RM cost easing out. We expect JLR volumes to grow growth in mid-single digit led by servicing of order book and semi conductor supply improving. EBITDA margin to improve by ~100bps sequentially.
	EBITDA	70,879	61,707	14.9	58,724	20.7	
	Margin (%)	9.3	10.1		8.2		
	PBT	-30,285	-34,671	NA	-49,617	NA	
	Adj. PAT	-30,285	-44,371	NA	-65,002	NA	
TVS Motors	Sales	68,865	56,194	22.5	60,087	14.6	We build in a 15% increase in revenue due to a 13% increase in volumes. TVS has been benefitting from its premium bike/scooter portfolio. We expect margin expansion of 70bps QoQ led by RM cost pressure easing out.
	EBITDA	7,369	5,629	30.9	5,995	22.9	
	Margin (%)	10.7	10.0		10.0		
	PBT	5,489	3,769	45.6	4,321	27.0	
	Adj. PAT	4,117	2,776	48.3	3,205	28.4	

Source: Company, PL

Exhibit 8: Valuation Summary

Company Names	S/C Rating	CMP (Rs)	TP (Rs)	MCAp (Rs bn)	Sales (Rs bn)				EBITDA (Rs bn)				PAT (Rs bn)				EPS (Rs)				RoE (%)				PE (x)			
					FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E
Ashok Leyland	S BUY	156	200	458.4	216.9	291.8	357.1	404.2	9.9	22.5	35.4	43.2	0.2	10.5	20.7	26.7	0.1	3.6	7.0	9.1	0.2	13.8	25.3	29.3	NA	43.9	22.2	17.2
Bharat Forge	S BUY	707	875	329.0	62.5	72.6	82.9	90.4	17.2	19.1	22.3	25.2	10.5	11.1	13.2	15.9	22.6	23.8	28.3	34.2	16.1	14.7	15.6	16.6	31.2	29.7	25.0	20.6
Bajaj Auto	S HOLD	3,582	3,765	1,036.5	331.4	336.6	383.2	422.3	52.6	55.5	67.1	74.7	53.6	55.7	65.0	71.1	185.1	192.6	224.8	245.8	20.6	20.5	23.0	23.7	19.4	18.6	15.9	14.6
CEAT	C Acc	1,561	1,700	63.1	93.6	109.6	120.7	132.9	7.1	9.4	12.8	14.9	0.8	1.9	4.4	5.4	19.6	47.3	108.5	134.4	2.4	5.7	12.3	13.7	79.6	33.0	14.4	11.6
Eicher Motors	S BUY	3,548	4,225	969.7	103.0	139.9	168.9	192.2	21.7	33.9	44.3	52.3	16.8	28.3	38.5	47.0	61.3	103.4	140.8	172.1	13.9	20.6	23.4	23.4	57.8	34.3	25.2	20.6
Endurance Tech.	C BUY	1,412	1,590	198.6	75.5	87.3	100.9	108.6	9.6	11.8	15.1	16.8	4.9	5.6	7.7	8.9	34.5	40.0	54.7	63.0	13.0	13.5	16.3	16.2	40.9	35.3	25.8	22.4
Exide Industries	S UR	157	NA	133.0	122.9	136.7	149.4	NA	14.3	17.1	19.1	NA	8.0	10.2	11.6	NA	9.4	12.0	13.7	NA	11.2	13.1	13.6	NA	16.6	13.1	11.5	NA
Hero Motocorp	S BUY	2,615	3,175	522.5	292.5	339.0	382.6	420.6	33.7	42.7	52.1	57.2	24.7	31.0	38.3	41.9	123.8	155.0	191.6	209.5	16.0	19.0	21.6	21.3	21.1	16.9	13.6	12.5
Mahindra & Mahindra	S BUY	1,262	1,500	1,509.6	574.5	774.3	885.4	968.2	70.4	101.9	127.1	149.1	51.4	70.0	87.7	102.6	43.0	58.5	73.3	85.7	13.9	16.8	18.2	18.3	29.3	21.6	17.2	14.7
Maruti Suzuki	S BUY	8,682	9,500	2,621.9	883.0	1,078.0	1,226.3	1,387.1	57.0	100.9	137.8	166.8	37.7	70.3	98.8	121.9	124.7	232.7	327.1	403.7	7.1	12.4	15.7	17.2	69.6	37.3	26.5	21.5
Tata Motors	C BUY	408	570	1,560.5	2,784.5	3,267.9	3,833.2	4,188.0	340.1	410.5	519.2	576.9	-104.3	5.8	84.9	125.5	-27.2	1.5	22.2	32.8	-20.9	1.3	17.1	20.8	-15.0	267.0	18.4	12.4
TVS Motors	S BUY	1,036	1,085	492.2	207.9	249.0	281.6	308.2	19.6	26.6	32.7	38.5	9.2	14.3	18.8	22.9	19.3	30.2	39.5	48.2	20.4	27.0	28.6	27.7	53.7	34.3	26.2	21.5

Source: Company, PL

S=Standalone / C=Consolidated / UR = Under Review / Acc=Accumulate

Exhibit 9: Change in Estimates

	Rating		Target Price			Sales						PAT						EPS					
						FY23E			FY24E			FY23E			FY24E			FY23E			FY24E		
	C	P	C	P	% Chng.	C	P	% Chng.	C	P	% Chng.	C	P	% Chng.	C	P	% Chng.	C	P	% Chng.	C	P	% Chng.
Ashok Leyland	BUY	BUY	200	177	12.8%	2,91,798	2,85,030	2.4%	3,57,106	3,40,371	4.9%	10,451	11,508	-9.2%	20,692	20,928	-1.1%	3.6	3.9	-9.2%	7.0	7.1	-1.1%
Bharat Forge	BUY	BUY	875	900	-2.8%	72,619	78,058	-7.0%	82,869	87,550	-5.3%	11,073	12,152	-8.9%	13,169	13,977	-5.8%	23.8	26.1	-8.9%	28.3	30.0	-5.8%
Bajaj Auto	HOLD	HOLD	3,765	4,120	-8.6%	3,36,617	3,68,719	-8.7%	3,83,152	4,19,957	-8.8%	55,743	59,840	-6.8%	65,041	70,122	-7.2%	192.6	206.8	-6.8%	224.8	242.3	-7.2%
CEAT	Acc	UR	1,700	NA	NA	1,09,605	1,02,642	6.8%	1,20,740	1,10,956	8.8%	1,915	3,565	-46.3%	4,389	5,035	-12.8%	47.3	88.1	-46.3%	108.5	124.5	-12.8%
Eicher Motors	BUY	BUY	4,225	4,200	0.6%	1,39,887	1,36,472	2.5%	1,68,879	1,65,594	2.0%	28,260	28,586	-1.1%	38,489	38,778	-0.7%	103.4	104.6	-1.1%	140.8	141.9	-0.7%
Endurance Tech.	BUY	BUY	1,590	1,700	-6.5%	87,291	88,283	-1.1%	1,00,907	1,01,144	-0.2%	5,628	6,136	-8.3%	7,700	7,972	-3.4%	40.0	43.6	-8.3%	54.7	56.7	-3.4%
Exide Industries	UR	UR	NA	NA	NA	1,36,656	1,36,656	0.0%	1,49,389	1,49,389	0.0%	10,167	10,167	0.0%	11,616	11,616	0.0%	12.0	12.0	0.0%	13.7	13.7	0.0%
Hero Motocorp	BUY	BUY	3,175	3,130	1.4%	3,39,041	3,40,646	-0.5%	3,82,647	3,84,478	-0.5%	30,975	32,942	-6.0%	38,291	38,943	-1.7%	155.0	164.9	-6.0%	191.6	194.9	-1.7%
Mahindra & Mahindra	BUY	BUY	1,500	1,400	7.1%	7,74,320	7,32,277	5.7%	8,85,417	8,43,124	5.0%	70,033	66,171	5.8%	87,745	84,261	4.1%	58.5	55.3	5.8%	73.3	70.4	4.1%
Maruti Suzuki	BUY	BUY	9,500	9,500	0.0%	10,77,977	10,85,266	-0.7%	12,26,332	12,43,986	-1.4%	70,282	72,216	-2.7%	98,788	1,02,460	-3.6%	232.7	239.1	-2.7%	327.1	339.3	-3.6%
Tata Motors	BUY	BUY	570	535	6.7%	32,67,936	33,29,784	-1.9%	38,33,232	39,06,671	-1.9%	5,844	18,607	-68.6%	84,915	95,104	-10.7%	1.5	4.9	-68.6%	22.2	24.8	-10.7%
TVS Motors	BUY	BUY	1,085	950	14.1%	2,48,999	2,45,810	1.3%	2,81,563	2,74,351	2.6%	14,330	14,074	1.8%	18,761	18,133	3.5%	30.2	29.6	1.8%	39.5	38.2	3.5%

Source: Company, PL

C=Current / P=Previous / UR = Under Review / Acc=Accumulate

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	BUY	177	154
2	Bajaj Auto	Hold	4,120	3,884
3	Bharat Forge	BUY	900	736
4	CEAT	UR	-	1,122
5	Eicher Motors	BUY	4,200	3,688
6	Endurance Technologies	BUY	1,700	1,493
7	Exide Industries	UR	-	145
8	Hero Motocorp	BUY	3,130	2,762
9	InterGlobe Aviation	Hold	1,900	1,977
10	Mahindra & Mahindra	BUY	1,400	1,297
11	Maruti Suzuki	BUY	9,500	8,658
12	Tata Motors	BUY	535	444
13	TVS Motors	BUY	950	868

PL's Recommendation Nomenclature

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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