

Auto/Auto-Ancillary Sector

1QFY24 Result Preview

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Demand moderation visible; Margin expansion to continue

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Key Points

- 1QFY24 saw demand moderation in some segments, with volume declining in Commercial Vehicle and PV segments QoQ. 2W segment saw volume growth sequentially. Overall volume of OEMs grew by 5%/7% YoY/QoQ.
- Exports of 2Ws remained weak and declined by 20% YoY.
- We expect overall revenue of our auto coverage universe to grow by 2.2%/18.5% QoQ/YoY in 1QFY24, driven by ASP growth and volume growth.
- We estimate EBITDA margin improving by 250bps YoY for our Auto coverage companies, led by better operating leverage benefits and softening RM costs.

We expect 1QFY24 revenue of OEMs in our coverage universe to grow by 2%/21% QoQ/YoY. Overall OEM volume grew by 5%/7% YoY/QoQ. 2W volume grew by 3% YoY whereas exports remained weak. PV segment volume saw a marginal decline of 3% QoQ due to a high base. CVs saw a sequential decline in volume mainly due to the implementation of OBD phase II norms from April 1, 2023, which had led to strong pre-buying in 4QFY23. Tractor segment (M&M) volume declined by 3% YoY but grew by 28% QoQ. We are building in low single-digit growth in realizations QoQ on the back of the price hikes taken by OEMs. The Auto Ancillary universe's revenue is expected to grow by 16%/8% YoY/QoQ, led by higher volume in 2W segment QoQ and better price realizations. We expect EBITDA margin to improve by 50bps/210bps QoQ/YoY. For Tyre companies, revenue is expected to grow by 5%/5.3% QoQ/YoY on the back of better demand from OEMs and the Replacement segment. We expect EBITDA margin to improve by 20bps QoQ, led by RM cost moderation, price hikes and operating leverage benefits. We expect commodity cost tailwinds to further aid margins in 1QFY24. Prices of major commodities like Steel, Aluminum and Copper declined by 3.5%, 5.6% and 6% QoQ, respectively whereas Lead and Rubber prices remained flat QoQ.

Going ahead, we expect to see some recovery in rural sentiments amid improving income levels, which should support 2W volume while PV demand will moderate. The CV segment is expected to continue its growth trajectory, driven by replacement demand. We remain cautious about the outlook for exports due to concerns about economic slowdown and geopolitical issues confronting the US and the EU. Softening commodity prices should also bode well for the entire Auto industry.

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Ashok Leyland: Volume declined by 31% QoQ and grew by 4% YoY. The QoQ decline was due to the strong pre-buying that happened in 4QFY23 ahead of the implementation of BS-VI phase 2 norms. ASP is expected to improve because of price hikes and lower discounts. We expect EBITDA margin to be at ~10%, expanding YoY on the back of softening RM prices and operating leverage benefits.

Bajaj Auto: Volume grew by 10%/20% YoY/QoQ. Export demand for 2Ws continued to be affected by the global economic slowdown/geopolitical issues. We expect EBITDA margin to improve by 20bps QoQ, led by RM cost moderation.

Eicher Motors (RE): Eicher has reported a strong volume growth of 22%/5% YoY/QoQ, led by strong demand for the Hunter bike. Domestic demand was strong for RE bikes whereas exports declined by ~30% YoY. We expect EBITDA margin to improve by 40bps/10bps YoY/QoQ on the back of operating leverage benefits and easing raw material costs.

Hero MotoCorp: Volume grew by 6.5% QoQ and declined by 2.3% YoY. We expect the company's revenue to grow by 7.5%/8.6% YoY/QoQ, led by higher volume and better ASP. We expect EBITDA margin to expand by 40bps QoQ and 220bps YoY on the back of improved operating leverage and price hikes.

Mahindra & Mahindra (M&M): M&M's Auto segment volume decreased QoQ by 1% on account of a higher base whereas Tractor volume grew by 28% QoQ. EBITDA margin is expected to improve by 40bps QoQ on the back of higher mix of tractors and softening RM costs.

Maruti: We expect Maruti's earnings to decline by 1.2% QoQ on account of 3% QoQ drop in volume. On YoY basis, volume grew by 6%. We expect 70bps drop in margin on QoQ basis due to operating deleverage, which will marginally be offset by softening RM costs.

TVS Motor: Volume grew by 10%/5% QoQ/YoY. We expect revenue to grow by 12.5%/23.7% QoQ/YoY, led by higher volume and better ASP. We expect EBITDA margin to expand by 40bps QoQ, driven by price hikes and lower RM costs.

Apollo Tyres: We expect revenue to grow by 5.3%/10.8% QoQ/YoY. We expect EBITDA margin to remain stable.

Balkrishna Industries: We expect revenue to grow by 8% QoQ and decline by 8% YoY. Cost-control measures, normalization of freight costs and lower RM costs are expected to drive EBITDA margin higher by 120bps QoQ to ~22.5%.

Endurance Technologies: We expect consolidated revenue to improve by ~21%/15% YoY/QoQ. Indian business is expected to do well due to recovery in 2W sales sequentially. We expect consolidated EBITDA margin to improve by 80bps QoQ on the back of RM cost tailwinds and higher volume.

CEAT: We expect standalone revenue to increase by 3%/5% QoQ/YoY. Demand from OEMs, recovery in replacement demand and price hikes are expected to aid revenue growth. We expect EBITDA margin to decline by ~50bps QoQ due to higher expenses and increase in RM costs by 1-2%.

Jamna Auto: We expect revenue to decline by 12% QoQ due to decline in the sale of CVs. We expect the company's EBITDA margin to improve on QoQ basis due to softening RM costs.

Minda Corp: We expect revenue to increase by 8% QoQ, led by higher volume in the 2W segment in 1QFY24. It is likely to post higher-than-industry growth, led by an increase in kit value (driven by premium products). We expect the company's EBITDA margin to improve by 50bps/440bps QoQ/YoY.

Suprajit Engineering: Revenue is expected to grow by 7%/16% QoQ/YoY. EBITDA margin is expected to improve by 30bps QoQ, led by softening RM costs and operating leverage benefits.

Exhibit 1: Quarterly volume

Volume (units)	1QFY24	1QFY23	4QFY23	YOY(%)	QoQ(%)
Ashok Leyland	41,329	39,651	59,697	4.2	(30.8)
Bajaj Auto	1,027,407	93,3646	857,788	10.0	19.8
Hero MotoCorp	1,352,574	1,390,193	1,270,492	(2.7)	6.5
Eicher Motors (RE)	228,875	187,205	218,523	22.3	4.7
M&M	301,147	271,971	281,879	10.7	6.8
Maruti Suzuki	498,030	467,931	514,927	6.4	(3.3)
TVS Motor	953,244	906,791	868,363	5.1	9.8
Tata Motors (Standalone)	222,345	225,828	251,700	(1.5)	(11.7)
JLR- ex China JV (estimate)	93,253	71,733	92,330	30.0	1.0

Source: Nirmal Bang Institutional Equities Research

Exhibit 2: Quarterly result preview

Companies (Rsmn)	Rating	TP (Rs)	Revenue			Gross Margin (%)			EBITDA			EBITDA margin (%)			Adj PAT		
			1QFY24E	YoY (%)	QoQ (%)	1QFY24E	1QFY23	4QFY23	1QFY24E	YoY (%)	QoQ (%)	1QFY24E	1QFY23	4QFY23	1QFY24E	YoY (%)	QoQ (%)
Ashok Leyland	Buy	190	78,938	9.3	-32.1	25.0	20.7	24.4	7,815	144.0	-38.7	9.9	4.4	11.0	4,033	632.8	-42.0
Bajaj Auto	Acc	4,509	1,11,837	39.7	25.6	30.5	27.8	30.2	21,808	68.1	27.0	19.5	16.2	19.3	18,201	55.1	27.0
Eicher Motors (RE)	Buy	4,254	40,324	24.2	5.2	43.0	42.7	42.9	10,000	26.9	5.8	24.8	24.3	24.7	7,929	36.7	6.2
Hero MotoCorp	Acc	3,357	90,203	7.5	8.6	32.5	27.2	32.0	12,087	28.5	11.6	13.4	11.2	13.0	8,845	41.6	3.0
M&M	Acc	1,593	2,40,891	22.8	6.7	25.3	23.4	25.0	30,834	31.7	10.2	12.8	11.9	12.4	19,241	32.1	2.3
Maruti Suzuki	Buy	11,132	3,16,566	19.5	-1.2	27.3	25.4	26.7	31,023	62.2	-7.4	9.8	7.2	10.5	22,182	119.0	-15.5
TVS Motor	Acc	1,373	74,316	23.7	12.5	25.0	23.9	24.6	7,952	32.7	17.0	10.7	10.0	10.3	4,702	46.7	14.6
Apollo Tyres	Acc	427	65,809	10.8	5.3	43.0	39.7	43.4	10,529	52.6	5.5	16.0	11.6	16.0	4,222	121.4	-5.3
Balkrishna Ind.	Acc	2,195	25,111	-7.9	8.0	50.0	53.4	49.3	5,650	3.4	14.2	22.5	20.0	21.3	3,182	9.4	26.0
CEAT	Acc	1,910	29,516	5.3	3.1	39.0	31.6	40.1	3,660	122.9	-1.2	12.4	5.9	12.9	1,317	4,192.0	-4.9
Endurance Tech	Acc	1,629	25,630	21.3	14.7	40.6	39.6	40.7	3,488	45.5	22.2	13.6	11.3	12.8	1,665	49.5	22.0
Jamna Auto	Buy	129	5,578	1.8	-12.0	34.5	34.5	33.7	647	7.7	-18.6	11.6	11.0	12.5	409	9.2	-21.9
Minda Corp	Acc	302	11,605	14.9	8.0	38.0	34.8	37.6	1,323	24.1	13.1	11.4	10.6	10.9	673	28.3	-44.8
Suprajit Engineering	Acc	425	7,455	15.6	6.7	44.5	40.4	44.1	956	77.2	9.8	12.8	8.4	12.5	493	80.5	20.2

Source: Nirmal Bang Institutional Equities Research

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