

AUTOMOBILES

Q1FY21 Preview

09 July 2020

Negative dealer feedback and rich valuations; reduce exposure

During Q1FY21, PV sales nosedived ~80% YoY and 3W/2W volumes slumped ~70%. HCVs reported a steeper decline of ~90% YoY while a high base and dismal April dispatches saw tractors drop 20% despite good June sales. Our dealer checks indicate that rural recovery notwithstanding, the severe lockdown-related stress across sectors could erode FY21 demand. After a sharp rally, we remain negative on AL and HMCL while downgrading EIM and BJAUT to REDUCE, and MM and TVSL to SELL. MSIL is our only BUY.

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Dismal performance: While the markets have cheered a strong revival in auto sales in Jun'20, most OEMs are expected to report a dismal performance in Q1FY21. Given the steep volume declines in Q1 (PV: -80% YoY, 3W/2W: -70%, HCV: -90%, tractors: -20%), we expect our coverage companies to report a 71% YoY plunge in topline for the quarter. Negative operating leverage is likely to dent margins and drive a % YoY fall in EBITDA.

Negative feedback from channel checks: While monthly dispatches were better than expected in June, we remain cautious. Our channel checks with dealers in Rajasthan, Uttar Pradesh and Madhya Pradesh – constituting ~25% of the auto market – suggest that retail sales are not very encouraging. The initial uptick could be due to pent-up demand during the lockdown and onset of the marriage season. Dealers indicated that the tremendous pandemic-related stress across industries such as hotels, aviation, textiles, jewellery and mining could imply a significant pullback in FY21 auto demand.

Sharp stock rally also warrants caution: Most auto stocks have witnessed a price rally in the range of 50-70% during the last three months and offer very little upside from current levels. We believe the risk-reward is unfavourable and recommend that investors trim positions.

We maintain SELL on Ashok Leyland (AL) and REDUCE on Hero Moto (HMCL). We revise our estimates and target prices across our coverage, correspondingly downgrading our ratings to SELL on M&M (MM: from BUY) and TVS Motor (TVSL: from REDUCE). We also cut our ADD ratings on Bajaj Auto (BJAUT) and Eicher Motors (EIM) to REDUCE. Maruti Suzuki (MSIL) remains unchanged at BUY.

RECOMMENDATION SNAPSHOT

Ticker	Price	Target	Rating
AL IN	52	38	SELL
BJAUT IN	2,883	2,750	REDUCE
EIM IN	19,518	19,000	REDUCE
HMCL IN	2,696	2,700	REDUCE
MM IN	563	480	SELL
MSIL IN	6,020	6,500	BUY
TVSL IN	390	315	SELL

Price & Target in Rupees



Company-wise expectations

FIG 1 – QUARTERLY PREVIEW

Company (Rs mn)	Q1FY21E	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	Remarks
Ashok Leyland						
Sales	5,740	56,839	(89.9)	38,385	(85.0)	AL reported a ~90% YoY volume decline in the MHCV segment in Q1FY21. Margins are likely to suffer due to lower operating efficiency and an unfavourable sales mix (weak high tonnage sales). Deferral of the scrappage policy along with the economic slowdown continue to hurt AL.
EBITDA	(115)	5,370	(102.1)	1,830	(106.3)	
Adj PAT	(1,491)	2,503	NA	114	NA	
EBITDA margin (%)	(2.0)	9.4	-	4.8	-	
PAT margin (%)	(26.0)	4.4	-	0.3	-	
Bajaj Auto						
Sales	28,924	77,558	(62.7)	68,159	(57.6)	During Q1, BJAUT's volumes plunged ~64% YoY in motorcycles and ~70% in 3W. 3Ws contribute over 25% to blended margins. Cost-cutting measures and lower commodity prices may offer some relief on margins. Higher exposure to urban India could slow recovery.
EBITDA	4,993	11,982	(58.3)	12,528	(60.1)	
Adj PAT	5,808	11,257	(48.4)	13,103	(55.7)	
EBITDA margin (%)	17.3	15.4	-	18.4	-	
PAT margin (%)	20.1	14.5	-	19.2	-	
Eicher Motors						
Sales	7,510	23,526	(68.1)	21,795	(65.5)	RE volumes slumped ~70% YoY in Q1. Along with the steady decline in 350cc sales, the recent slowdown in the 650cc segment is a major cause of concern for margins and earnings growth. We believe valuations remain rich.
EBITDA	1,517	6,093	(75.1)	4,533	(66.5)	
Adj PAT	1,526	4,982	(69.4)	3,462	(55.9)	
EBITDA margin (%)	20.2	25.9	-	20.8	-	
PAT margin (%)	20.3	21.2	-	15.9	-	
Hero MotoCorp						
Sales	26,602	80,303	(66.9)	62,384	(57.4)	HMCL's 2W volumes plummeted ~70% YoY in Q1, which in turn will dent margins. With a good crop season, we expect a pickup in rural demand. HMCL may be the biggest beneficiary of this demand, but we believe most optimism is in the price.
EBITDA	3,245	11,580	(72.0)	6,599	(50.8)	
Adj PAT	2,306	5,199	(55.6)	6,207	(62.8)	
EBITDA margin (%)	12.2	14.4	-	10.6	-	
PAT margin (%)	8.7	6.5	-	9.9	-	
Mahindra & Mahindra (MM+MVML)						
Sales	57,044	128,055	(55.5)	90,046	(36.7)	Tractor sales in June were encouraging, but MM's auto sales continue to lag. Q1 auto/tractor segment volumes fell ~78%/24% YoY. A favourable sales mix and lower commodity prices will assist margins sequentially. But post the sharp rally, current valuations do not look sustainable.
EBITDA	8,149	17,936	(54.6)	12,273	(33.6)	
Adj PAT	3,726	8,927	(58.3)	3,225	15.5	
EBITDA margin (%)	14.3	14.0	-	13.6	-	
PAT margin (%)	6.5	7.0	-	3.6	-	
Maruti Suzuki						
Sales	36,930	197,198	(81.3)	181,987	(79.7)	MSIL's volumes plummeted ~80% YoY in Q1. We expect gross margins to improve sequentially. With a good crop season, MSIL may be one of the biggest beneficiaries of a pickup in rural demand. That said, we also expect the overall blend to move to cheaper variants.
EBITDA	3,287	20,478	(83.9)	15,464	(78.7)	
Adj PAT	2,630	14,355	(81.7)	12,917	(79.6)	
EBITDA margin (%)	8.9	10.4	-	8.5	-	
PAT margin (%)	7.1	7.3	-	7.1	-	
TVS Motor						
Sales	12,265	44,686	(72.6)	34,814	(64.8)	During Q1, TVSL reported a decline of ~71% YoY in volume sales. Lower commodity prices would benefit margins sequentially, but softer volumes will impact operating efficiencies. Valuations continue to be rich.
EBITDA	(117)	3,558	(103.3)	2,449	NA	
Adj PAT	(1,058)	1,423	NA	1,062	NA	
EBITDA margin (%)	(1.0)	8.0	-	7.0	-	
PAT margin (%)	(8.6)	3.2	-	3.1	-	

Source: Company, BOBCAPS Research

FIG 2 – Q1FY21 VOLUME SNAPSHOT

Company	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Ashok Leyland	2,394	12,810	(81.3)	25,504	(90.6)
HCVs	755	8,427	(91.0)	16,953	(95.5)
LCVs	1,639	4,383	(62.6)	8,551	(80.8)
Bajaj Auto	443,103	1,247,174	(64.5)	991,961	(55.3)
Motorcycles	399,929	1,082,627	(63.1)	853,540	(53.1)
3Ws	43,174	164,547	(73.8)	138,421	(68.8)
Exports (of above)	251,840	550,021	(54.2)	513,801	(51.0)
Eicher Motors	59,307	196,920	(69.9)	174,499	(66.0)
RE	57,178	183,589	(68.9)	162,870	(64.9)
VECV	2,129	13,331	(84.0)	11,629	(81.7)
Hero MotoCorp	563,426	1,842,920	(69.4)	1,334,511	(57.8)
Mahindra & Mahindra	95,308	218,039	(56.3)	152,233	(37.4)
Auto	29,651	131,689	(77.5)	92,943	(68.1)
Tractors	65,657	86,350	(24.0)	59,290	10.7
Maruti Suzuki	76,599	402,594	(81.0)	385,025	(80.1)
Domestic	67,027	374,481	(82.1)	360,428	(81.4)
Exports	9,572	28,113	(66.0)	24,597	(61.1)
TVS Motor	267,563	923,195	(71.0)	632,922	(57.7)
2Ws	256,058	883,670	(71.0)	590,320	(56.6)
3Ws	11,505	39,525	(70.9)	42,602	(73.0)

Source: Companies, BOBCAPS Research

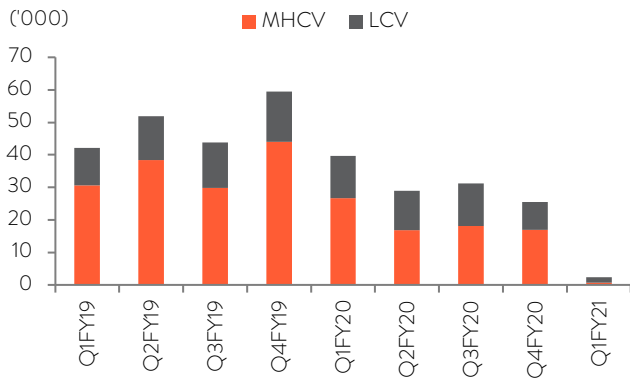
FIG 3 – COMMODITY AND CURRENCY QUARTERLY TRENDS

	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Key Commodities (USD)									
Aluminium	2,264	2,054	1,966	1,862	1,794	1,765	1,756	1,691	1,501
QoQ (%)	18.8	(9.3)	(4.3)	(5.3)	(3.7)	(1.6)	(0.5)	(3.7)	(11.2)
Lead	2,384	2,097	1,966	2,034	1,883	2,029	2,042	1,843	1,679
QoQ (%)	10.6	(12.0)	(6.2)	3.5	(7.4)	7.7	0.6	(9.8)	(8.9)
Brent oil	75	75	68	63	69	62	63	51	31
QoQ (%)	48.7	1.0	(10.1)	(6.8)	8.5	(9.7)	1.2	(19.2)	(37.9)
Rubber (RS4) (Rs)	12,382	13,071	12,357	12,565	13,899	14,265	12,749	13,423	12,066
QoQ (%)	(5.4)	5.6	(5.5)	1.7	10.6	2.6	(10.6)	5.3	(10.1)
Hot rolled steel	4,168	4,300	3,926	3,802	3,949	3,793	3,720	3,602	3,550
QoQ (%)	28.7	3.2	(8.7)	(3.2)	3.8	(3.9)	(1.9)	(3.2)	(1.4)
Cold rolled steel	4,606	4,788	4,535	4,313	4,326	4,292	4,307	4,257	3,947
QoQ (%)	21.4	4.0	(5.3)	(4.9)	0.3	(0.8)	0.4	(1.2)	(7.3)
Key Currencies									
INR/USD	67.1	70.1	72.1	70.5	69.6	70.3	71.2	72.4	75.9
QoQ (%)	4.0	4.5	2.9	(2.2)	(1.3)	1.1	1.3	1.6	4.9
INR/EUR	79.9	81.5	82.3	80.1	78.2	78.2	78.9	79.9	83.6
QoQ (%)	12.4	2.1	0.9	(2.6)	(2.4)	0.1	0.9	1.2	4.7
INR/GBP	91.2	91.4	92.8	91.7	89.4	86.7	91.7	92.7	94.2
QoQ (%)	10.5	0.2	1.5	(1.1)	(2.5)	(3.0)	5.7	1.1	1.6
INR/JPY	0.6	0.6	0.6	0.6	0.6	0.7	0.7	0.7	0.7
QoQ (%)	5.8	2.4	1.6	0.1	(1.1)	3.7	(0.1)	1.5	6.1
USD/EUR	1.2	1.2	1.1	1.1	1.1	1.1	1.1	1.1	1.1
QoQ (%)	8.2	(2.4)	(1.9)	(0.4)	(1.1)	(1.0)	(0.4)	(0.4)	(0.1)
USD/GBP	1.4	1.3	1.3	1.3	1.3	1.2	1.3	1.3	1.2
QoQ (%)	6.3	(4.2)	(1.3)	1.3	(1.3)	(4.1)	4.5	(0.6)	(3.0)

Source: Bloomberg, BOBCAPS Research

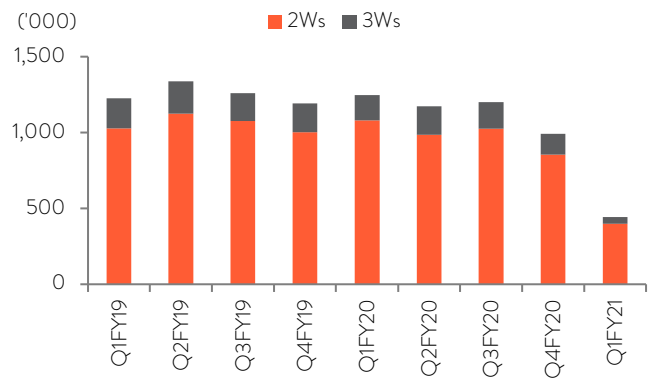
Quarterly volume trends

FIG 4 – ASHOK LEYLAND



Source: Companies, BOBCAPS Research

FIG 5 – BAJAJ AUTO



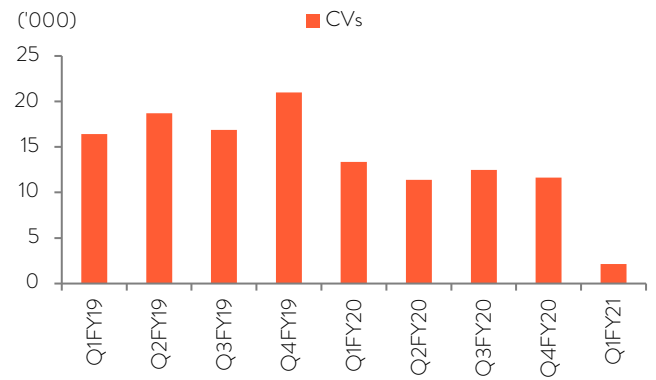
Source: Companies, BOBCAPS Research

FIG 6 – ROYAL ENFIELD



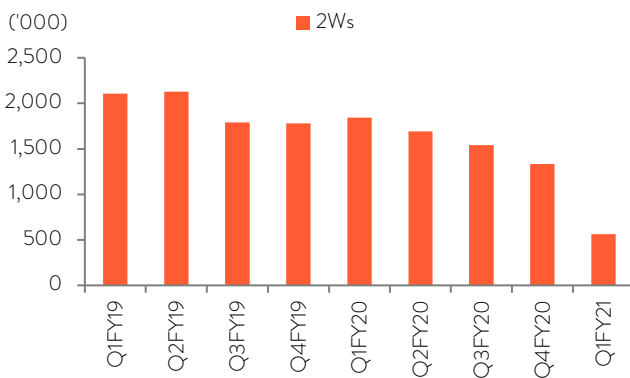
Source: Companies, BOBCAPS Research

FIG 7 – VECV



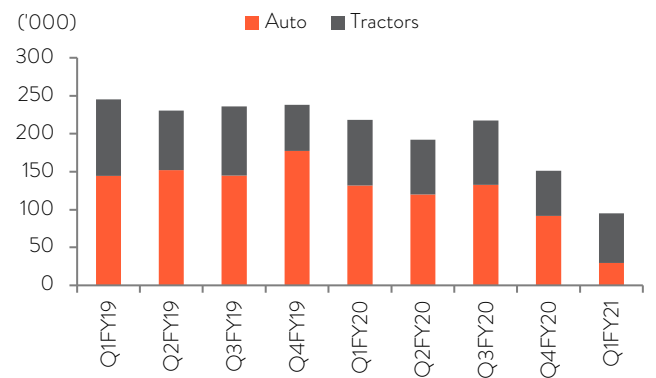
Source: Companies, BOBCAPS Research

FIG 8 – HERO MOTOCORP



Source: Companies, BOBCAPS Research

FIG 9 – MAHINDRA & MAHINDRA



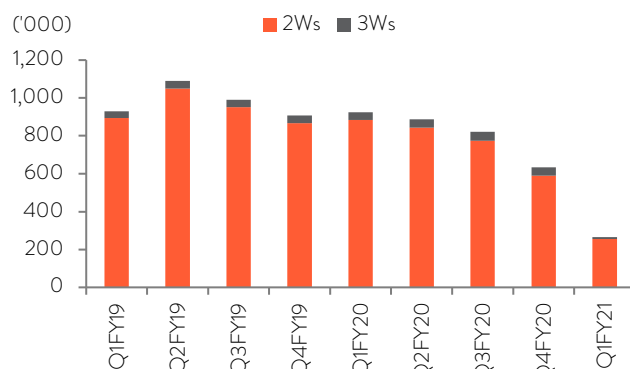
Source: Companies, BOBCAPS Research

FIG 10 – MARUTI SUZUKI



Source: Companies, BOBCAPS Research

FIG 11 – TVS MOTOR



Source: Companies, BOBCAPS Research

Change in estimates

FIG 12 – REVISED ESTIMATES

(Rs mn)	New		Old		Change (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Ashok Leyland						
Volumes (nos)	106,907	162,000	108,752	156,000	(1.7)	3.8
Revenues	156,542	241,958	164,843	240,662	(5.0)	0.5
EBITDA	8,764	18,177	9,987	17,967	(12.2)	1.2
EBITDA margin (%)	5.6	7.5	6.1	7.5	(46.0)	4.7
Adj. PAT	(325)	6,428	696	6,228	(146.6)	3.2
Adj. EPS (Rs)	(0.1)	2.2	0.2	2.1	(155.3)	4.3
Bajaj Auto						
Volumes (nos)	3,612,052	4,537,765	3,997,502	4,437,782	(9.6)	2.3
Revenues	241,180	309,051	279,728	316,607	(13.8)	(2.4)
EBITDA	39,015	52,288	42,067	51,338	(7.3)	1.9
EBITDA margin (%)	16.2	16.9	15.0	16.2	113.8	70.4
Adj. PAT	37,321	50,168	41,574	49,387	(10.2)	1.6
Adj. EPS (Rs)	129.0	173.4	143.7	170.7	(10.2)	1.6
Eicher Motors						
Volumes (nos)	571,769	690,000	584,920	689,310	(2.2)	0.1
Revenues	79,271	97,431	81,900	97,431	(3.2)	0.0
EBITDA	18,497	24,119	19,354	24,119	(4.4)	0.0
EBITDA margin (%)	23.3	24.8	23.6	24.8	(29.7)	0.0
Adj. PAT	16,823	24,219	16,560	23,401	1.6	3.5
Adj. EPS (Rs)	591.4	792.3	518.5	760.4	14.1	4.2
Hero MotoCorp						
Volumes (nos)	5,209,839	6,512,299	5,976,261	6,662,659	(12.8)	(2.3)
Revenues	252,993	322,566	298,780	336,060	(15.3)	(4.0)
EBITDA	31,614	47,595	37,084	45,002	(14.7)	5.8
EBITDA margin (%)	12.5	14.8	12.4	13.4	8.4	136.4
Adj. PAT	22,344	35,852	27,209	32,916	(17.9)	8.9
Adj. EPS (Rs)	111.9	179.5	136.2	164.8	(17.9)	9.0

(Rs mn)	New		Old		Change (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Mahindra & Mahindra						
Volumes (nos)	683,050	806,273	712,022	806,100	(4.1)	0.0
Revenues	408,708	492,752	429,248	492,000	(4.8)	0.2
EBITDA	55,613	67,437	51,792	64,456	7.4	4.6
EBITDA margin (%)	13.6	13.7	12.1	13.1	154.1	58.5
Adj. PAT	31,714	40,440	29,147	39,483	8.8	2.4
Adj. EPS (Rs)	25.5	32.6	23.5	31.8	8.8	2.4
Maruti Suzuki						
Volumes (nos)	1,286,599	1,800,000	1,412,128	1,614,558	(8.9)	11.5
Revenues	640,797	923,394	702,174	828,967	(8.7)	11.4
EBITDA	58,693	102,628	67,162	98,056	(12.6)	4.7
EBITDA margin (%)	9.2	11.1	9.6	11.8	(40.5)	(71.4)
Adj. PAT	33,558	72,896	49,044	72,330	(31.6)	0.8
Adj. EPS (Rs)	111.1	241.3	162.4	239.5	(31.6)	0.8
TVS Motor						
Volumes (nos)	2,467,933	3,193,343	2,869,876	3,186,903	(14.0)	0.2
Revenues	134,521	172,955	156,440	177,119	(14.0)	(2.4)
EBITDA	9,715	14,602	12,649	15,855	(23.2)	(7.9)
EBITDA margin (%)	7.2	8.4	8.1	9.0	(86.4)	(50.9)
Adj. PAT	2,470	5,939	4,769	6,934	(48.2)	(14.3)
Adj. EPS (Rs)	5.2	12.5	10.0	14.6	(48.2)	(14.3)

Source: Company, BOBCAPS Research

Valuation and View

Most auto stocks have witnessed a price rally in the range of 50-70% during the last three months and offer very little upside from current levels. We believe the risk-reward profile is unfavourable and recommend that investors trim positions. We maintain SELL on AL and REDUCE on HMCL. We revise our estimates and target prices across our coverage, simultaneously downgrading our ratings to SELL on MM (from BUY) and TVSL (from REDUCE). We also cut our ADD ratings on BJAUT and EIM to REDUCE. MSIL remains unchanged at BUY.

FIG 13 – VALUATION SUMMARY

Ticker	CMP (Rs)	New TP (Rs)	Old TP (Rs)	New Rating	Old Rating	P/E		Valuation basis
						FY21E	FY22E	
AL IN	52	38	38	SELL	SELL	NA	24	18x FY22E EPS
BJAUT IN	2,883	2,750	2,690	REDUCE	ADD	22	16	16x FY22E EPS
EIM IN	19,518	19,000	18,100	REDUCE	ADD	33	25	22x FY22E EPS for RE + Rs 1,500 as EIM's share in VECV
HMCL IN	2,696	2,700	2,300	REDUCE	REDUCE	24	15	15x FY22E EPS
MM IN	563	480	400	SELL	BUY	22	17	13x FY22E EPS + 30% hold-co discount on listed subsidiaries
MSIL IN	6,020	6,500	6,000	BUY	BUY	54	25	27x FY22E EPS
TVSL IN	390	315	320	SELL	REDUCE	74	31	25x FY22E EPS

Source: Company, BOBCAPS Research

Stock performance

FIG 14 – ASHOK LEYLAND



FIG 15 – BAJAJ AUTO

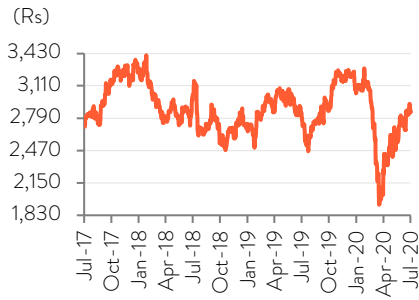


FIG 16 –EICHER MOTORS

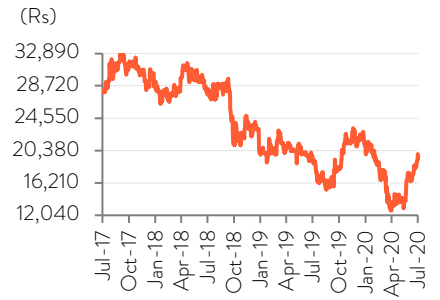


FIG 17 – HERO MOTOCORP

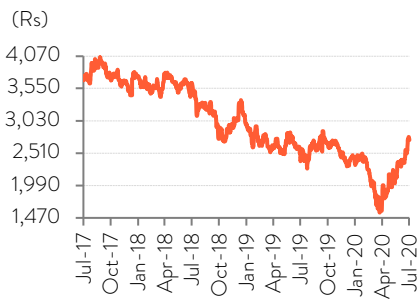


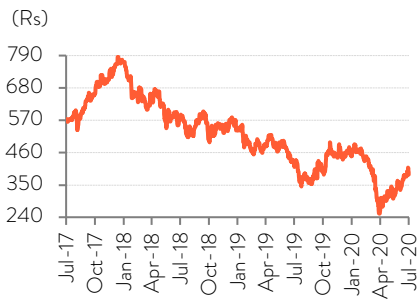
FIG 18 – MAHINDRA & MAHINDRA



FIG 19 – MARUTI SUZUKI



FIG 20 – TVS MOTOR



Source: NSE

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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