AUTOMOBILES

01 September 2021

Aug’21 PV dispatches dip MoM, CVs and 2Ws rise marginally

- **PV dispatches in August hit by semiconductor shortage; expected to remain affected in coming months until supply is restored**
- **CV dispatches grew MoM on a lower base and gradual economic recovery while tractors sales slid MoM**
- **Domestic 2W dispatches increased slightly over July and exports remained stable**

Mayur Milak | Nishant Chowhan, CFA
researchreport@bobcaps.in

Semiconductor shortage hits PV dispatches: Maruti’s (MSIL) total dispatches fell to 130.7k in August (-20% MoM) as production was impacted by a global shortage of semiconductors. MSIL further stated that this would cap production at 40% of normal levels in Sep’21. The company’s domestic sales fell 22% MoM while exports were down 3%. M&M’s (MM) PV sales declined 24% MoM, Tata Motors (TTMT) posted a 7% MoM dip and Hyundai saw a 4% fall. Semiconductor availability remains a challenge for most OEMs and will lead to a demand-supply mismatch in the upcoming festive season as channel inventory is already below normal.

Domestic 2W inventory remains high; exports stable: Bajaj Auto’s (BJAUT) total volumes grew 1% MoM with exports remaining flattish and domestic sales up 3%. TVS Motor’s (TVSL) sales increased 4% MoM to 290k units with domestic 2Ws growing at 4% MoM and 3Ws at 2%. Royal Enfield (RE) reported 2W sales of 46k units (+4% MoM). Hero’s (HMCL) wholesale volumes were flattish MoM at 454k, unperforming peer growth rates. Per OEMs, production of premium 2Ws remains affected due to short supply of semiconductors.

CV dispatches revive as economy starts opening up: With the economy gradually opening up, CV dispatches grew MoM for the third consecutive month. TTMT’s CV dispatches increased 20% MoM as MHCV/LCV volumes increased 7%/25%. For Ashok Leyland (AL), total CV dispatches grew 8% MoM as MHCV sales increased 21% (LCVs down 2%).

Erratic monsoon dampens tractor demand: Tractor sales declined ~20% MoM in August due to weaker monsoon activity in the initial parts of the month which impeded sowing. MM sold 21.4k tractors (-22% MoM) during the month and expects the tractor industry to record mid-single-digit growth in FY22. Escorts (ESC) sold 5.7k tractors, a 13% MoM decline. Per the company, healthy rural sentiments and favourable macroeconomic factors should translate to better demand during the festive season. We have factored in a 6% CAGR in tractor industry sales over FY21-FY23.

Four-wheelers

Fig 1 – Ashok Leyland

Segment	Aug-21	Aug-20	YoY (%)	Jul-21	MoM (%)	YTD FY22	YTD FY21	YoY (%)
M&HCV	4,632	2,589	78.9	3,822	21.2	17,504	5,315	229.3
LCV	4,728	3,736	26.6	4,828	(2.1)	18,493	9,599	92.7
Total domestic sales	**9,360**	**6,325**	**48.0**	**8,650**	**8.2**	**35,997**	**14,914**	**141.4**

Source: Company, BOBCAPS Research

Fig 2 – Maruti Suzuki

Segment	Aug-21	Aug-20	YoY (%)	Jul-21	MoM (%)	YTD FY22	YTD FY21	YoY (%)
Domestic sales	110,080	116,704	(5.7)	141,238	(22.1)	559,413	285,038	96.3
Exports	20,619	7,920	160.3	21,224	(2.9)	87,362	24,249	260.3
Total sales	**130,699**	**124,624**	**4.9**	**162,462**	**(19.6)**	**646,775**	**309,287**	**109.1**

Source: Company, BOBCAPS Research

Fig 3 – Mahindra & Mahindra

Segment	Aug-21	Aug-20	YoY (%)	Jul-21	MoM (%)	YTD FY22	YTD FY21	YoY (%)
Passenger vehicles	15,973	13,651	17.0	21,046	(24.1)	80,221	36,618	119.1
- Utility vehicles	15,786	13,407	17.7	20,797	(24.1)	79,153	36,008	119.8
- Cars + Vans	187	244	(23.4)	249	(24.9)	1,068	610	75.1
Commercial vehicles	8,841	15,299	(42.2)	17,666	(50.0)	60,541	43,989	37.6
3-wheelers	2,591	307	744.0	2,148	20.6	7,804	442	1665.6
Total domestic sales	**27,405**	**29,257**	**(6.3)**	**40,860**	**(32.9)**	**148,566**	**81,049**	**83.3**
Exports	3,180	1,169	172.0	2,123	49.8	11,850	4,706	151.8
Total auto sales	**30,585**	**30,426**	**0.5**	**42,983**	**(28.8)**	**160,416**	**85,755**	**87.1**
Tractor domestic	19,997	23,503	(14.9)	25,769	(22.4)	141,614	112,543	25.8
Tractor exports	1,363	955	42.7	1,460	(6.6)	6,904	2,974	132.1
Total tractor sales	**21,360**	**24,458**	**(12.7)**	**27,229**	**(21.6)**	**148,518**	**115,517**	**28.6**

Source: Company, BOBCAPS Research

Fig 4 – Escorts

Segment	Aug-21	Aug-20	YoY (%)	Jul-21	MoM (%)	YTD FY22	YTD FY21	YoY (%)
Tractors	5,693	7,268	(21.7)	6,564	(13.3)	37,334	30,740	21.5
Total sales	**5,693**	**7,268**	**(21.7)**	**6,564**	**(13.3)**	**37,334**	**30,740**	**21.5**

Source: Company, BOBCAPS Research

Two-wheelers

Fig 5 – Hero MotoCorp

Segment	Aug-21	Aug-20	YoY (%)	Jul-21	MoM (%)	YTD FY22	YTD FY21	YoY (%)
2-wheelers	453,879	584,456	(22.3)	454,398	(0.1)	1,932,766	1,662,391	16.3
Total sales	**453,879**	**584,456**	**(22.3)**	**454,398**	**(0.1)**	**1,932,766**	**1,662,391**	**16.3**

Source: Company, BOBCAPS Research

Fig 6 – Royal Enfield

Segment	Aug-21	Aug-20	YoY (%)	Jul-21	MoM (%)	YTD FY22	YTD FY21	YoY (%)
Up to 350cc	38,572	46,357	(16.8)	37,556	2.7	182,681	135,174	35.1
Exceeding 350cc	7,288	3,787	92.4	6,482	12.4	30,857	12,482	147.2
Exports	6,790	2,573	163.9	4,748	43.0	30,501	7,312	317.1
Total sales	**45,860**	**50,144**	**(8.5)**	**44,038**	**4.1**	**213,538**	**147,656**	**44.6**

Source: Company, BOBCAPS Research

Fig 7 – TVS Motor

Segment	Aug-21	Aug-20	YoY (%)	Jul-21	MoM (%)	YTD FY22	YTD FY21	YoY (%)
Total 2-wheeler sales	274,313	277,226	(1.1)	262,728	4.4	1,155,742	777,072	48.7
Total 3-wheeler sales	16,381	10,172	61.0	16,127	1.6	71,565	30,633	133.6
Total sales	**290,694**	**287,398**	**1.1**	**278,855**	**4.2**	**1,227,307**	**807,705**	**51.9**

Source: Company, BOBCAPS Research

Fig 8 – Bajaj Auto

Segment	Aug-21	Aug-20	YoY (%)	Jul-21	MoM (%)	YTD FY22	YTD FY21	YoY (%)
Motorcycles	338,310	321,058	5.4	330,569	2.3	1,568,184	959,543	63.4
3-wheelers	34,960	35,141	(0.5)	38,547	(9.3)	180,216	95,591	88.5
Total sales	**373,270**	**356,199**	**4.8**	**369,116**	**1.1**	**1,748,400**	**1,055,134**	**65.7**
Exports of above	200,675	170,320	17.8	201,843	(0.6)	1,051,395	519,016	102.6

Source: Company, BOBCAPS Research

Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Rating distribution

As of 31 August 2021, out of 105 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 48 have BUY ratings, 25 have HOLD ratings, 10 are rated ADD*, 2 are rated REDUCE* and 20 are rated SELL. None of these companies have been investment banking clients in the last 12 months. (*Our ADD and REDUCE ratings are in the process of being migrated to the new recommendation structure.)

Analyst certification

The research analyst(s) authoring this report hereby certifies that (1) all of the views expressed in this research report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOBCAPS.

General disclaimers

BOBCAPS is engaged in the business of Institutional Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS has obtained registration as a Research Entity under SEBI (Research Analysts) Regulations, 2014, having registration No.: INH000000040 valid till 03 February 2025. BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017. BOBCAPS CIN Number: U65999MH1996GOI098009.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities —that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may act as market makers or assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

In the US, this material is only for Qualified Institutional Buyers as defined under rule 144(a) of the Securities Act, 1933. No part of this document may be distributed in Canada or used by private customers in the United Kingdom.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.

Company-specific disclosures under SEBI (Research Analysts) Regulations, 2014

The research analyst(s) or his/her relatives do not have any material conflict of interest at the time of publication of this research report.

BOBCAPS or its research analyst(s) or his/her relatives do not have any financial interest in the subject company. BOBCAPS or its research analyst(s) or his/her relatives do not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

The research analyst(s) has not received any compensation from the subject company in the past 12 months. Compensation of the research analyst(s) is not based on any specific merchant banking, investment banking or brokerage service transactions.

BOBCAPS or its research analyst(s) is not engaged in any market making activities for the subject company.

The research analyst(s) has not served as an officer, director or employee of the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.