

**RESEARCH**
**[SECTOR REPORT] AUTOMOBILES**

Premiumisation powering demand revival; exports lag

**Daily macro indicators**

Indicator	26-Sep	27-Sep	Chg (%)
US 10Y yield (%)	4.54	4.61	7bps
India 10Y yield (%)	7.14	7.17	3bps
USD/INR	83.24	83.23	0.0
Brent Crude (US\$/bbl)	94.0	96.6	2.8
Dow	33,619	33,550	(0.2)
Hang Seng	17,467	17,612	0.8
Sensex	65,945	66,119	0.3
India FII (US\$ mn)	25-Sep	26-Sep	Chg (\$ mn)
FII-D	7.6	53.9	46.4
FII-E	(166.9)	16.6	183.4

Source: Bank of Baroda Economics Research

**SUMMARY**
**[SECTOR REPORT] AUTOMOBILES**

- YTD data signals steady demand shift toward high-end products, fuelling a raft of premium launches across segments
- Revival in domestic markets adds buoyancy, but exports remain an area of concern
- AL and MM our preferred picks while VSTT stands downgraded to HOLD and we retain SELL on Escorts

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## AUTOMOBILES

29 September 2023

### Premiumisation powering demand revival; exports lag

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**Two-wheelers (2W) – premiumisation to the fore:** HMCL's *Splendor* remains the highest selling motorcycle with ~520,000 units sold in FY24 YTD (Apr-Aug), while *Honda Activa* remains the best-selling scooter at ~350,000 units. Demand for premium products continues to scale up, steered by higher sales of *Apache* (TVSL), *Pulsar* (BJAUT) and the like. New launches in the upper-end segment include HMCL's *X-440* in collaboration with Harley Davidson and BJAUT's *Triumph Speed 400* and *Scrambler 400 X*

**Passenger vehicles (PV) – new highs:** Domestic PV industry volumes continue to grow, rising 7.2% YoY in FY24 YTD (Apr-Aug). Continued and surging demand for utility vehicles (+33% YoY) and a favourable response to hybrid models (petrol + CNG) together with new launches over the past few months have powered PV sales to new highs. Market leader MSIL grew 11.3% YoY domestically while its exports grew 12.2%. As per SIAM, of the top 10 bestselling PV models, 9 are from MSIL.

**Commercial vehicles (CV) – mixed bag:** As per FADA, the CV segment has grown 2.6% YoY during YTD (Apr-Aug). While AL and EIM reported growth of 10.4% and 12.5% YoY respectively, TTMT posted weak volumes (-1% YoY). Government initiatives to address the financial woes of state transport corporations and to order new-age buses for city transport bode well for AL.

**Three-wheelers (3W) – revival ongoing:** A revival is underway in the 3W segment with a focus on electric vehicles and BJAUT consolidating its market leadership with *RE* and *Maxima*. However, export woes owing to region-specific issues continue.

**Tractors – powering up:** Tractors have seen demand shift towards the high-end 30-40HP and 40-50HP segments, while the lower end sub-30HP segment is losing market share.

**Top picks:** We prefer **AL (BUY, TP Rs 210)** and **MM (BUY, Rs 1,824)** in the auto sector. VSTT stands downgraded from BUY to HOLD (TP Rs 3,464) due to steep valuations, and we remain negative on Escorts (SELL, TP Rs 2,343).

### Recommendation snapshot

Ticker	Price	Target	Rating
AL IN	177	210	BUY
BJAUT IN	5,064	4,837	HOLD
EIM IN	3,447	3,601	HOLD
ESCORTS IN	3,185	2,343	SELL
HMCL IN	3,057	3,009	HOLD
MM IN	1,554	1,824	BUY
MSIL IN	10,611	10,533	HOLD
TVSL IN	1,522	1,440	HOLD
VSTT IN	3,655	3,464	HOLD

Price & Target in Rupees | Price as of 29 Sep 2023



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**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

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