

## AUTOMOBILES

Q2FY22 Preview

12 October 2021

## Volume uptick QoQ to support revenue but RM headwinds persist

- Stronger QoQ dispatches across auto segments to boost Q2 topline; input cost and semiconductor supply headwinds continue
- Tyre companies face challenges from high base in aftermarket sales, weaker product mix and RM price inflation
- We await management commentary on semiconductor supply, inventory levels, festive demand and RM cost outlook

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**OEMs:** We expect healthy QoQ revenue growth for OEMs under our coverage in Q2FY22 supported by an uptick in wholesale volumes of CVs, 2Ws, 3Ws and PVs. While gross margin pressure continues, better operating efficiencies and price hikes should support EBITDA margin expansion for most OEMs. With a 7% QoQ rise in volumes, we expect Maruti's (MSIL) Q2 revenue to grow 11% and EBITDA margin to expand 140bps.

2W OEMs (ex-Royal Enfield) have reported sequential volume growth on a soft base, with Hero Moto (HMCL) clocking a 40% QoQ increase. Higher volumes coupled with price hikes should support revenue growth while positive operating leverage would aid margin gains. Inventories remain normal-to-high for 2W players in the domestic market, indicating that any fall in retail sales may have a direct impact on production. PV inventory remains low, affected by short supply of semiconductors for most OEMs.

In the CV segment, MHCV sales have jumped over 50% QoQ in Q2 owing to normalised economic activities and a softer base. We expect Ashok Leyland (AL) to report a 53% QoQ rise in revenue with a 4% EBITDA margin backed by better capacity utilisation and cost-cutting initiatives, partially offset by raw material cost headwinds.

**Tractors & Tillers:** Tractor growth trajectory stalled in Q2 and dispatches were down 11% QoQ for M&M (MM). VST Tillers (VSTT) reported 25% QoQ growth. We expect margins for all these agri-related players to contract QoQ as higher input cost and negative operating leverage take a toll.

**Tyres:** OEMs have posted sequential volume growth of over 25% in Q2. While we expect replacement demand to moderate, we forecast ~10% QoQ revenue growth for tyre companies aided by price hikes. In our view, the jump in rubber prices (from ~Rs 155/kg in Q4FY21 to Rs 173/kg currently) and higher crude derivative costs (up ~20% in the last six months) would compress gross margins QoQ, albeit set off by better capacity utilisation. We continue to recommend a strong SELL on the entire tyre pack under coverage.

### Recommendation snapshot

Ticker	Price	Target	Rating
APTY IN	241	140	SELL
BIL IN	2,603	1,550	SELL
CEAT IN	1,392	840	SELL
EIM IN	2,852	2,200	SELL
GNA IN	1,043	540	HOLD
JKI IN	153	90	SELL
MDA IN	139	140	BUY
MM IN	896	630	SELL
MRF IN	84,933	67,000	SELL
MSIL IN	7,701	8,000	HOLD
SRTY IN	2,538	1,200	SELL
SWE IN	1,677	1,600	SELL
TVSL IN	559	480	SELL
VSTT IN	3,355	2,300	HOLD

Price &amp; Target in Rupees | Price as of 11 Oct 2021



## Company-wise expectations

Fig 1 – Quarterly preview

Company (Rs mn)	Q2FY22E	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	Remarks
<b>Ashok Leyland</b>						
Sales	45,188	28,366	59.3	29,510	53.1	Volumes rose 53% QoQ in Q2 as MHCVs recovered 49% while LCVs grew 57%, albeit on a softer base. We expect AL's revenue to grow in line with volumes at 53% QoQ, with RM cost pressure likely offset by better operating efficiencies, leading to QoQ expansion in EBITDA margin. Adj. loss is projected to reduce to Rs 313mn.
EBITDA	1,897	804	135.9	(1,401)	NA	
Adj PAT	(313)	(1,467)	NA	(2,823)	NA	
EBITDA margin (%)	4.2	2.8	-	(4.7)	-	
PAT margin (%)	(0.7)	(5.2)	-	(9.6)	-	
<b>Maruti Suzuki</b>						
Sales	196,840	187,445	5.0	177,707	10.8	Led by 7% QoQ volume growth and a ~3% rise in ASP (price hikes, better product mix), we expect 11% revenue growth. Operating margin is forecast to expand 140bps QoQ given better operating efficiency and normalised staff cost. We model for 67% QoQ adj. PAT growth on a low base. Key monitorables are inventory levels, RM prices, semiconductor availability and new launch timelines.
EBITDA	11,810	19,336	(38.9)	8,211	43.8	
Adj PAT	7,377	13,716	(46.2)	4,408	67.4	
EBITDA margin (%)	6.0	10.3	-	4.6	-	
PAT margin (%)	3.7	7.3	-	2.5	-	
<b>Bajaj Auto</b>						
Sales	86,962	71,559	21.5	73,860	17.7	Volumes grew 14% QoQ in Q2; 3Ws were up 7% and 2Ws grew 15% led by an uptick in the domestic market. We expect ASP to improve ~3% QoQ, leading to revenue growth of 18% QoQ. Operating margin is projected to contract 100bps QoQ on higher RM cost, leading to adj. PAT of Rs 11.3bn (+6% QoQ). Key monitorables are export demand, inventory, 3W recovery timeline and the EV roadmap.
EBITDA	12,320	12,662	(2.7)	11,198	10.0	
Adj PAT	11,250	11,382	(1.2)	10,612	6.0	
EBITDA margin (%)	14.2	17.7	-	15.2	-	
PAT margin (%)	12.9	15.9	-	14.4	-	
<b>Eicher Motors</b>						
Sales	19,807	21,233	(9.3)	19,078	3.8	Royal Enfield volumes were flattish QoQ in Q2 but timely price hikes and new launches should help ASPs improve 4%, leading to sequential revenue growth of 4% to an estimated Rs 19.8bn. We expect EBITDA margin to improve marginally and adj. PAT to stay flattish at Rs 2.7bn. Key monitorables are new launch timelines, inventory levels and studio store performance.
EBITDA	3,506	4,838	(28.6)	3,345	4.8	
Adj PAT	2,708	3,609	(26.0)	2,672	1.1	
EBITDA margin (%)	17.7	22.8	-	17.5	-	
PAT margin (%)	13.8	17.0	-	14.0	-	
<b>Hero MotoCorp</b>						
Sales	78,978	93,763	(15.8)	54,871	43.9	ASP is likely to rise 2% QoQ given recent price hikes while volumes have grown 40%, aiding an estimated 44% rise in revenue. Better operating efficiency should offset RM cost inflation, driving EBITDA margin expansion of 90bps QoQ. We expect adj. PAT to grow 63% QoQ to Rs 6bn. Key monitorables are inventory levels, new launches and any vendor-side supply challenges.
EBITDA	8,152	12,864	(36.6)	5,148	58.4	
Adj PAT	5,959	9,535	(37.5)	3,654	63.1	
EBITDA margin (%)	10.3	13.7	-	9.4	-	
PAT margin (%)	7.5	10.2	-	6.7	-	
<b>TVS Motor</b>						
Sales	56,039	46,055	21.7	39,344	42.4	Revenue is forecast to rise 42% QoQ to Rs 56bn (volumes +39% QoQ, ASPs +2%). Better operating efficiency and product mix should counter RM cost inflation, leading to EBITDA margin expansion of 170bps QoQ. We expect adj. PAT to grow to Rs 2.4bn. Key monitorables are 3W demand, export market performance and cost-cutting initiatives.
EBITDA	4,877	4,301	13.4	2,738	78.1	
Adj PAT	2,427	1,962	23.7	531	357.1	
EBITDA margin (%)	8.7	9.3	-	7.0	-	
PAT margin (%)	4.3	4.3	-	1.3	-	
<b>Mahindra &amp; Mahindra</b>						
Sales	124,180	115,903	7.1	117,628	5.6	Auto volumes grew 17% QoQ while tractor sales fell 11% in Q2. Sequential RM cost inflation and lower contribution from farm segment which commands higher margins could compress operating margin to 13% (-90bps QoQ), translating to flattish EBITDA. Adj. PAT is likely to fall 4% QoQ to Rs 8.3bn.
EBITDA	16,160	20,573	(21.5)	16,317	(1.0)	
Adj PAT	8,251	1,618	410.0	8,556	(3.6)	
EBITDA margin (%)	13.0	17.8	-	13.9	-	
PAT margin (%)	6.6	1.4	-	7.3	-	
<b>Swaraj Engines</b>						

Company (Rs mn)	Q2FY22E	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	Remarks
Sales	2,917	2,923	(0.2)	3,147	(7.3)	We expect a revenue decline of 7% QoQ to Rs 2.9bn led by a projected volume decrease of 8%. Gross margin contraction is estimated at 140bps QoQ – this coupled with higher fixed operating costs could compress EBITDA margin sequentially (-170bps QoQ). Adj. PAT is projected at Rs 276mn. Demand outlook and market share gains are key monitorables.
EBITDA	387	400	(3.3)	473	(18.2)	
Adj PAT	276	271	1.8	337	(18.1)	
EBITDA margin (%)	13.3	13.7	-	15.0	-	
PAT margin (%)	9.5	9.3	-	10.7	-	
<b>VST Tillers</b>						Since restrictions were imposed on tiller imports from China, VSTT has witnessed a sharp jump in tiller demand. Tiller volumes were up 28% QoQ while tractors grew 14% QoQ. We expect revenue to grow 25% QoQ while a lower gross margin is likely to cause EBITDA margin contraction of 80bps QoQ. Adj. PAT is estimated at Rs 267mn.
Sales	2,416	2,204	9.6	1,936	24.8	
EBITDA	298	377	(21.0)	254	17.3	
Adj PAT	267	299	(10.7)	240	11.3	
EBITDA margin (%)	12.3	17.1	-	13.1	-	
PAT margin (%)	11.1	13.6	-	12.4	-	
<b>Apollo Tyres</b>						With most replacement demand catered to in previous quarters, we model for sedate revenue growth of 3% QoQ to Rs 47bn. Gross margin pressures are likely to impact most tyre companies and a higher share of sale to OEMs would further erode EBITDA margins. We expect 40bps QoQ margin contraction and an adj. PAT decline of 5% QoQ.
Sales	47,385	42,827	10.6	45,845	3.4	
EBITDA	5,686	6,948	(18.2)	5,668	0.3	
Adj PAT	1,227	1,999	(38.6)	1,294	(5.2)	
EBITDA margin (%)	12.0	16.2	-	12.4	-	
PAT margin (%)	2.6	4.7	-	2.8	-	
<b>Balkrishna Industries</b>						We assume tonnage volumes will increase by 4% QoQ with ASP improving by 1%, resulting in sequential revenue growth of 6%. Operating margin is expected to expand slightly as better operating efficiency offsets the higher RM costs. Adj. PAT is projected at Rs 3.7bn (+13% QoQ).
Sales	19,139	15,788	21.2	18,131	5.6	
EBITDA	5,446	5,367	1.5	5,127	6.2	
Adj PAT	3,746	3,395	10.3	3,312	13.1	
EBITDA margin (%)	28.5	34.0	-	28.3	-	
PAT margin (%)	19.6	21.5	-	18.3	-	
<b>CEAT</b>						With strong 2W OEM sales QoQ, CEAT could see revenue growth of 14% to Rs 21.6bn. We estimate a 100bps QoQ fall in EBITDA margin led by gross margin stress and flattish EBITDA. Adj. PAT is estimated at Rs 276mn (+39% QoQ). Key monitorables are management's view on demand, RM prices and product price hikes.
Sales	21,630	19,651	10.1	18,978	14.0	
EBITDA	1,656	1,017	62.8	1,655	0.1	
Adj PAT	276	1,702	(83.8)	199	38.7	
EBITDA margin (%)	7.7	5.2	-	8.7	-	
PAT margin (%)	1.3	8.7	-	1.0	-	
<b>JK Tyre</b>						We have factored in moderate sequential growth in CV replacement demand and a sharp rise in the OEM market to arrive at our Q2 revenue estimate of Rs 29.8bn. Operating margin is forecast to fall 100bps QoQ on higher RM cost. Key monitorables are further plans for debt reduction, CV demand outlook and capacity utilisation.
Sales	29,771	22,748	30.9	26,084	14.1	
EBITDA	2,876	3,550	(19.0)	2,795	2.9	
Adj PAT	711	1,080	(34.2)	440	61.6	
EBITDA margin (%)	9.7	15.6	-	10.7	-	
PAT margin (%)	2.4	4.7	-	1.7	-	
<b>MRF</b>						Revenue is projected to rise 14% QoQ to Rs 47bn given strong OEM sales partially offset by moderate demand in the replacement segment. RM cost inflation would impact operating margin but is likely to be mitigated by better operating efficiencies. We project PAT of Rs 2.4bn. Key monitorables are capacity expansion plans, RM cost trends and replacement market demand.
Sales	47,045	41,864	12.4	41,277	14.0	
EBITDA	6,116	8,544	(28.4)	4,872	25.5	
Adj PAT	2,411	4,030	(40.2)	1,613	49.5	
EBITDA margin (%)	13.0	20.4	-	11.8	-	
PAT margin (%)	5.1	9.6	-	3.9	-	
<b>TVS Srichakra</b>						Given full exposure to 2W tyres, we expect volumes to replicate the rise in 2W sales, leading to revenue growth of 12% QoQ to Rs 5.3bn. Estimated gross margin shrinkage could be offset by normalised staff costs and better operating efficiency, leading to EBITDA growth of 54% QoQ with EBITDA margin at 7%. Adj. PAT is projected at Rs 80mn
Sales	5,331	5,350	(0.4)	4,760	12.0	
EBITDA	372	849	(56.2)	241	54.4	
Adj PAT	80	394	(79.7)	2	3,900.0	
EBITDA margin (%)	7.0	15.9	-	5.1	-	
PAT margin (%)	1.5	7.4	-	0.0	-	

Source: Company, BOBCAPS Research

## Quarterly commodity and currency trends

Fig 2 – Commodity and currency trend

Particulars	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22
<b>Key Commodities</b>												
<b>Aluminium (USD)</b>	1,966	1,862	1,794	1,765	1,756	1,691	1,501	1,704	1,916	2,096	2,400	2,630
QoQ (%)	(4.3)	(5.3)	(3.7)	(1.6)	(0.5)	(3.7)	(11.2)	13.5	12.3	9.3	14.5	9.6
<b>Lead (USD)</b>	1,966	2,034	1,883	2,029	2,042	1,843	1,679	1,875	1,902	2,011	2,123	2,343
QoQ (%)	(6.2)	3.5	(7.4)	7.7	0.6	(9.8)	(8.9)	11.7	1.6	5.7	5.6	10.4
<b>Brent oil (USD)</b>	68	63	69	62	63	51	31	43	44	61	69	73
QoQ (%)	(10.1)	(6.8)	8.5	(9.7)	1.2	(19.2)	(37.9)	35.8	4.5	36.0	13.0	6.0
<b>Rubber (RS4) (Rs)</b>	12,357	12,565	13,899	14,265	12,749	13,423	12,066	13,088	15,219	15,841	16,849	17,348
QoQ (%)	(5.5)	1.7	10.6	2.6	(10.6)	5.3	(10.1)	8.5	16.2	4.1	6.4	3.0
<b>Hot rolled steel (CNY)</b>	3,926	3,802	3,949	3,793	3,720	3,602	3,550	3,928	4,182	4,782	5,672	5,740
QoQ (%)	(8.7)	(3.2)	3.8	(3.9)	(1.9)	(3.2)	(1.4)	10.6	6.5	14.4	18.6	1.2
<b>Cold rolled steel (CNY)</b>	4,535	4,313	4,326	4,292	4,307	4,257	3,947	4,480	5,095	5,575	6,267	6,445
QoQ (%)	(5.3)	(4.9)	0.3	(0.8)	0.4	(1.2)	(7.3)	13.5	13.6	9.4	12.4	2.8
<b>Key Currencies</b>												
<b>INR/USD</b>	72.1	70.5	69.6	70.3	71.2	72.4	75.9	74.4	73.8	72.9	73.7	74.1
QoQ (%)	2.9	(2.2)	(1.3)	1.1	1.3	1.6	4.9	(2.0)	(0.8)	(1.2)	1.1	0.5
<b>INR/EUR</b>	82.3	80.1	78.2	78.2	78.9	79.9	83.6	86.9	88.1	87.9	88.9	87.4
QoQ (%)	0.9	(2.6)	(2.4)	0.1	0.9	1.2	4.7	3.9	1.3	(0.2)	1.2	(1.7)
<b>INR/GBP</b>	92.8	91.7	89.4	86.7	91.7	92.7	94.2	96.1	97.5	100.5	103.1	102.2
QoQ (%)	1.5	(1.1)	(2.5)	(3.0)	5.7	1.1	1.6	1.9	1.5	3.1	2.6	(0.9)
<b>INR/JPY</b>	0.6	0.6	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
QoQ (%)	1.6	0.1	(1.1)	3.7	(0.1)	1.5	6.1	(0.7)	0.9	(2.6)	(2.6)	0.5
<b>USD/EUR</b>	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.2	1.2	1.2	1.2	1.2
QoQ (%)	(1.9)	(0.4)	(1.1)	(1.0)	(0.4)	(0.4)	(0.1)	6.1	5.5	1.0	0.0	(2.1)
<b>USD/GBP</b>	1.3	1.3	1.3	1.2	1.3	1.3	1.2	1.3	1.3	1.4	1.4	1.4
QoQ (%)	(1.3)	1.3	(1.3)	(4.1)	4.5	(0.6)	(3.0)	4.1	2.3	4.3	1.4	(1.3)

Source: Bloomberg, BOBCAPS Research

## Quarterly volume trends

Fig 3 – Q1FY22 volume snapshot

Company	Q2FY22	Q2FY21	YoY (%)	Q1FY22	QoQ (%)
<b>Ashok Leyland</b>	<b>27,543</b>	<b>19,444</b>	<b>41.7</b>	<b>17,987</b>	<b>53.1</b>
HCVs	13,514	7,936	70.3	9,050	49.3
LCVs	14,029	11,508	21.9	8,937	57.0
<b>Bajaj Auto</b>	<b>1,144,407</b>	<b>1,053,337</b>	<b>8.6</b>	<b>1,006,014</b>	<b>13.8</b>
Motorcycles	1,029,915	964,465	6.8	899,305	14.5
3Ws	114,492	88,872	28.8	106,709	7.3
Exports (of above)	612,191	479,751	27.6	648,877	(5.7)
<b>Eicher Motors</b>	<b>123,427</b>	<b>150,519</b>	<b>(18.0)</b>	<b>123,640</b>	<b>(0.2)</b>
RE	101,648	136,885	(25.7)	106,553	(4.6)
VECV	21,779	13,634	59.7	17,087	27.5
<b>Hero MotoCorp</b>	<b>1,438,623</b>	<b>1,814,683</b>	<b>(20.7)</b>	<b>1,024,849</b>	<b>40.4</b>
<b>Mahindra &amp; Mahindra</b>	<b>190,600</b>	<b>185,270</b>	<b>2.9</b>	<b>186,777</b>	<b>2.0</b>
Auto	101,680	92,024	10.5	86,848	17.1
Tractors	88,920	93,246	(4.6)	99,929	(11.0)
<b>Maruti Suzuki</b>	<b>379,541</b>	<b>393,130</b>	<b>(3.5)</b>	<b>353,614</b>	<b>7.3</b>
Domestic	320,133	370,619	(13.6)	308,095	3.9
Exports	59,408	22,511	163.9	45,519	30.5
<b>TVS Motor</b>	<b>916,705</b>	<b>867,834</b>	<b>5.6</b>	<b>657,128</b>	<b>39.5</b>
2Ws	869,552	834,346	4.2	618,071	40.7
3Ws	47,153	33,488	40.8	39,057	20.7

Source: Company, BOBCAPS Research

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### 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

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