

## AUTOMOBILES

Q2FY24 Review

17 November 2023

## Cruising along

- Q2 volumes steered by PV sales while 2W segment remained tepid on slow (but steady) rural growth
- Raw material cost savings aided gross margin expansion; realisation gains limited to cost pass-through
- Retain AL and MM as top picks

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**PV segment delivers strong growth:** Passenger vehicle OEMs under our coverage delivered above-industry volume growth of 9.1% YoY (~5% for the industry) in Q2FY24. AL and MM posted healthy double-digit growth of 11% YoY each and MSIL saw 7% volume gains on a higher base. Gross margin increased by 263bps YoY on average for the three companies, with AL in the lead (+446bps to 26.5%), driven by a mix of price hikes and easing raw material prices. MM's focus has shifted to growth over earnings and hence margin traction was limited (+93bps to 24.4%).

**Volume growth remains a concern for 2Ws, realisations healthy:** Volume growth for two-wheeler (2W) players under our coverage was below par as rural domestic demand remains slow, though we are seeing signs of steady revival. Export markets are picking up, due to region specific issues. The 2W segment saw realisation gains of 10% YoY (industry growth ~9%) led by the introduction of high-end models by players such as BJAUT and HMCL. Margins gains were largely backed by healthy realisation gains and cost savings, with aggregate gross margin rising 250bps YoY on average to 29% for our 2W coverage vs. 31% for the industry.

**Tractor volumes fell due to festive season gyrations, high-end segment in focus:** Volumes in the tractor segment remained tepid with ESCORTS sliding by 7% YoY and MM's tractor segment dipping 4% YoY in Q2FY24. VSTT's volumes grew at a healthy 16% YoY with the focus remaining on the high-end 40HP+ segment. The margin trajectory remains healthy with 300-400bps gross margin gains.

**Steady LCV segment revival:** The commercial vehicle (CV) segment delivered healthy growth, with respite provided by a revival in the light commercial segment (LCV).

**Positive on AL and MM; ESC remains a SELL:** We remain positive on AL (BUY, TP Rs 210) and MM (BUY, TP Rs 1,849) given their focus on growth while we retain SELL (TP Rs 2,343) on ESCORTS due to weak tractor segment growth. We retain HOLD on all 2W stocks under our coverage.

## Recommendation snapshot

Ticker	Price	Target	Rating
AL IN	174	210	BUY
BJAUT IN	5,632	5,139	HOLD
EIM IN	3,865	3,601	HOLD
ESCORTS IN	3,239	2,343	SELL
HMCL IN	3,335	3,009	HOLD
MM IN	1,585	1,849	BUY
MSIL IN	10,524	11,562	HOLD
TVSL IN	1,748	1,531	HOLD
VSTT IN	4,003	3,858	HOLD

Price & Target in Rupees | Price as of 17 Nov 2023



**Fig 1 – Revenue growth**

(Rs mn)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	Comment
AL	96,380	82,660	16.6	81,893	17.7	<ul style="list-style-type: none"> <li>Revenue growth YoY for our auto coverage was healthy in the mid-teens (~16%) due to a shift/split in the festive season.</li> <li>Q3 growth is likely to stay healthy.</li> </ul>
BJAUT	107,773	102,027	5.6	103,098	4.5	
EIM	39,307	33,972	15.7	39,012	0.8	
ESCORTS	20,462	18,835	8.6	23,277	(12.1)	
HMCL	94,454	90,754	4.1	87,673	7.7	
MM	243,099	208,393	16.7	240,561	1.1	
MSIL	370,621	299,308	23.8	323,269	14.6	
TVSL	81,446	72,192	12.8	72,179	12.8	
VSTT	2,785	2,342	18.9	2,461	13.2	
<b>Aggregate</b>	<b>1,056,327</b>	<b>910,481</b>	<b>16.0</b>	<b>973,423</b>	<b>8.5</b>	

Source: Company, BOBCAPS Research

**Fig 2 – Volume growth**

(Units)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	Comment
AL	49,846	45,295	10.0	41,329	20.6	<ul style="list-style-type: none"> <li>Volume growth partially reflects the festive season gains.</li> <li>2W volume concerns remain.</li> <li>Tractor segment volumes were disappointing due to inconsistent rains and a shift in timing of the festive season.</li> </ul>
BJAUT	1,050,975	1,151,012	(8.7)	1,027,091	2.3	
EIM	229,280	207,564	10.5	227,706	0.7	
ESCORTS	22,024	23,703	(7.1)	26,582	(17.1)	
HMCL	1,416,526	1,428,168	(0.8)	1,352,574	4.7	
MM	302,139	273,193	10.6	301,147	0.3	
MSIL	552,055	517,395	6.7	498,030	10.8	
TVSL	1,074,378	1,042,418	3.1	953,244	12.7	
VSTT	12,170	10,507	15.8	10,596	14.9	
<b>Aggregate</b>	<b>4,709,393.0</b>	<b>4,699,255.0</b>	<b>0.2</b>	<b>4,438,299.0</b>	<b>6.1</b>	

Source: Company, BOBCAPS Research

**Fig 3 – Average realisation**

(Rs/vehicle)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	Comment
AL	1,933,563	1,824,914	6.0	1,981,488	(2.4)	<ul style="list-style-type: none"> <li>Realisation gains were largely limited to cost escalation contributed by statutory cost.</li> <li>Pass-through of the statutory norms related cost escalation came as a breather in Q2, and further impetus will come from realisation gains beyond pass-through.</li> </ul>
BJAUT	102,545	88,641	15.7	100,378	2.2	
EIM	171,437	163,670	4.7	171,325	0.1	
ESCORTS	929,068	794,617	16.9	875,683	6.1	
HMCL	66,680	63,545	4.9	64,819	2.9	
MM	804,593	762,804	5.5	798,814	0.7	
MSIL	671,348	578,490	16.1	649,095	3.4	
TVSL	75,808	69,254	9.5	75,719	0.1	
VSTT	228,850	222,851	2.7	232,295	(1.5)	
<b>Aggregate</b>	<b>553,766</b>	<b>507,643</b>	<b>9.1</b>	<b>549,957</b>	<b>0.7</b>	

Source: Company, BOBCAPS Research

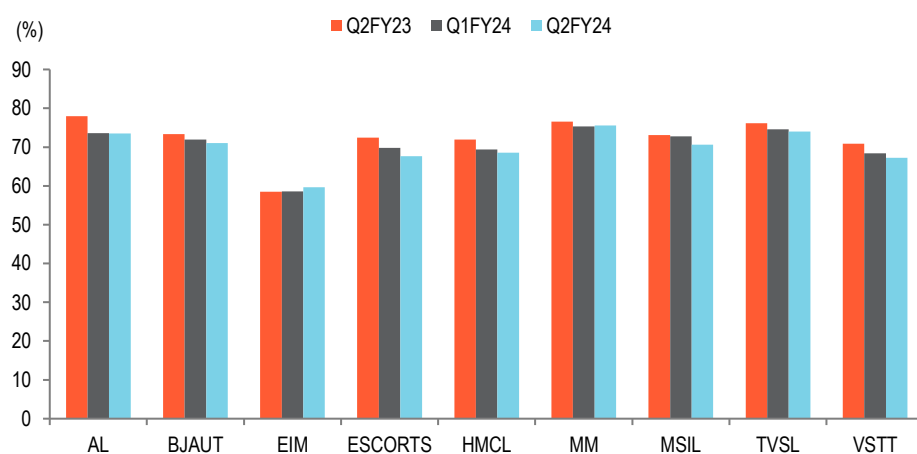
**Fig 4 – EBITDA growth**

(Rs mn)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	Comment
AL	10,798	5,373	101.0	8,298	30.1	<ul style="list-style-type: none"> <li>EBITDA growth was healthy as raw material costs eased YoY.</li> <li>PV and CV segments also benefitted from better operating leverage.</li> </ul>
BJAUT	21,329	17,496	21.9	19,539	9.2	
EIM	10,974	8,036	36.6	10,127	8.4	
ESCORTS	2,633	1,527	72.4	3,269	(19.5)	
HMCL	13,283	10,383	27.9	12,063	10.1	
MM	29,341	24,964	17.5	32,351	(9.3)	
MSIL	47,842	27,689	72.8	29,830	60.4	
TVSL	8,998	7,365	22.2	7,638	17.8	
VSTT	431	322	33.7	317	36.0	
<b>Aggregate</b>	<b>145,628</b>	<b>103,155</b>	<b>41.2</b>	<b>123,431</b>	<b>18.0</b>	

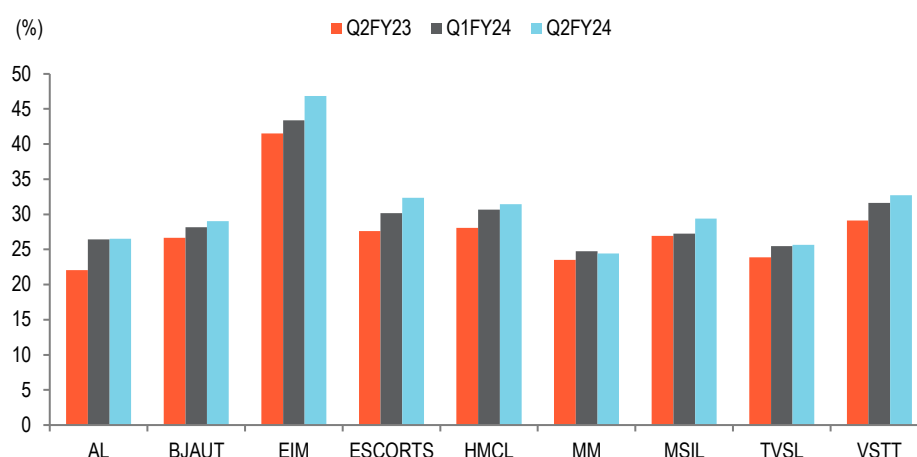
Source: Company, BOBCAPS Research

Raw material availability and inflation both eased YoY, giving much needed respite to the auto industry

Raw material-to-sales dropped by an average of 255bps YoY for our coverage, with the 2W segment the biggest contributor

**Fig 5 – Raw material cost to sales**

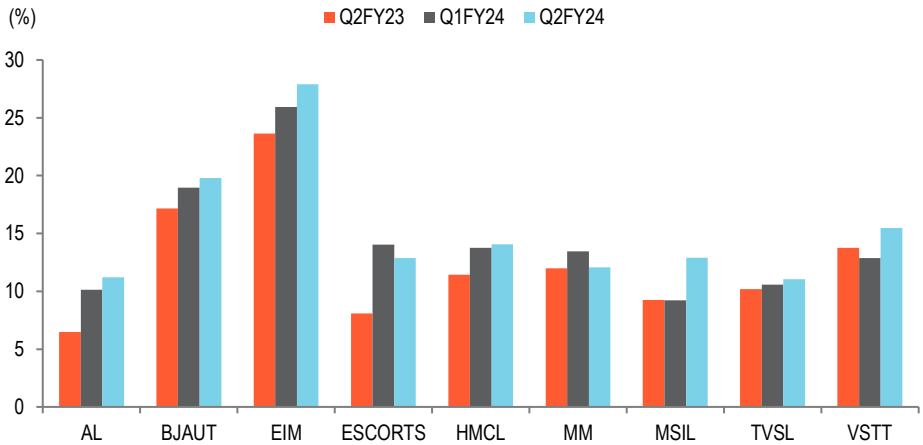
Source: Company, BOBCAPS Research

**Fig 6 – Gross margin**

Source: Company, BOBCAPS Research

Better leverage in addition to cost benefits aided aggregate EBITDA margin gains of 280bps YoY to 15.3%

Fig 7 – EBITDA margin



Source: Company, BOBCAPS Research

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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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