

AUTOMOBILES

Q3FY24 Review

16 February 2024

Healthy volumes on strong PV sales, 2W revival

- Q3 volumes steered by PV sales and 2W recovery on the back of festive/wedding season demand and rural pickup
- Raw material cost savings aided gross margins; realisation gains subpar due to festive discounts and year-end offers
- Post results, we raised MSIL and TVSL to BUY on an upbeat growth outlook and cut BJAUT to SELL post rally

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2W segment revives: Two-wheeler (2W) OEMs under our coverage delivered 21% YoY volume growth in Q3FY24, above industry growth of ~19%, driven by festive season sales, rural demand pickup and the ongoing wedding season. Realisation gains for our 2W coverage universe were tepid at 4% YoY mainly due to festive seasons discounts and a volume push. The industry saw a steady stream of launches in high-end premium models and electric 2Ws, which aided YoY margin expansion for HMCL and TVSL.

PV growth momentum continues: Passenger vehicle (PV) OEMs under our coverage grew 9% YoY, beating industry volume growth of 7% in Q3. MM posted double-digit volume growth of 11% YoY while MSIL grew 8%. Gross margin expanded by 116bps YoY on average for MM (56 bps) and MSIL (176bps), backed by softening raw material cost. MM maintained a steady gross margin of 24.6% for the quarter, though its focus has now shifted to growth over earnings.

Tractor volumes decline, high-end segment in focus: Volumes in the tractor segment remained weak, with VSTT/ESCORTS/MM seeing declines of 36%/7%/4% as patchy rainfall and a delayed crop harvest dampened rural sentiments. Management interactions indicates higher demand in 40HP-50HP segment. We expect the tractor segment to recover from Q2FY25 (in the preliminary monsoon forecast guidance for 2024, Skymet expects the upcoming monsoon to be 'normal').

Rating changes post-Q3: In our quarterly result notes, we have upgraded both **MSIL** (TP Rs 12,234) and **TVSL** (TP Rs 2,242) to BUY given their focus on premiumisation, EVs and launch plans over the medium term, while downgrading **BJAUT** to SELL (TP Rs 6,272) due to the recent stock runup.

Top picks – AL and MM: We remain positive on **AL** (BUY, TP Rs 226) following its strong market share gains, regional penetration and bus segment order book. We also reiterate BUY on **MM** (TP Rs 2,077) for its focus on volume growth, capacity buildup to cater to additional demand, timely addition of variants and strong launch pipeline.

Recommendation snapshot

Ticker	Price	Target	Rating
AL IN	175	226	BUY
BJAUT IN	8,123	6,272	SELL
EIM IN	3,917	4,045	HOLD
ESCORTS IN	2,905	2,389	SELL
HMCL IN	4,817	4,671	HOLD
MM IN	1,765	2,077	BUY
MSIL IN	11,090	12,234	BUY
TVSL IN	2,093	2,242	BUY
VSTT IN	3,237	3,213	HOLD

Price & Target in Rupees | Price as of 15 Feb 2024



Fig 1 – Revenue growth

(Rs mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	Comment
AL	92,730	90,297	2.7	96,380	(3.8)	<ul style="list-style-type: none"> Our auto coverage reported healthy aggregate revenue growth of 16% YoY in Q3FY24. 2W OEMs reported above-average revenue growth, whereas commercial vehicle (CV) and tractor manufacturers had a weak quarter. We expect the growth momentum to continue into Q4FY24.
BJAUT	121,135	93,151	30.0	107,773	12.4	
EIM	40,542	35,902	12.9	39,307	3.1	
ESCORTS	23,204	22,637	2.5	20,462	13.4	
HMCL	97,237	80,310	21.1	94,454	2.9	
MM	252,885	216,537	16.8	243,099	4.0	
MSIL	333,087	290,443	14.7	370,621	(10.1)	
TVSL	82,450	65,454	26.0	81,446	1.2	
VSTT	1,700	2,137	(20.5)	2,785	(39.0)	
Aggregate	1,044,970	896,868	16.5	1,056,327	(1.1)	

Source: Company, BOBCAPS Research

Fig 2 – Volume growth

(Units)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	Comment
AL	47,241	47,562	(0.7)	49,846	(5.2)	<ul style="list-style-type: none"> Aggregate volumes for our auto coverage grew 17% YoY owing to a ~42-day festival season in Q3FY24, year-end discounts, 2W rural demand pickup and the launch of new models in the 2W premium/SUV segment. We expect 2W, 3W and PV volumes to hold steady in Q4FY24, while CV recovery is likely to be gradual and tractor volumes could remain soft. Tractor volumes have slowed due to weak rural sentiments, patchy rainfall and a delayed crop harvest.
BJAUT	1,196,974	983,276	21.7	1,050,975	13.9	
EIM	228,073	221,401	3.0	229,280	(0.5)	
ESCORTS	25,999	28,025	(7.2)	22,024	18.0	
HMCL	1,459,934	1,239,693	17.8	1,416,526	3.1	
MM	313,115	281,859	11.1	302,139	3.6	
MSIL	501,207	465,911	7.6	552,055	(9.2)	
TVSL	1,100,843	879,423	25.2	1,089,359	1.1	
VSTT	6,039	8,993	(32.8)	12,170	(50.4)	
Aggregate	4,879,425	4,156,143	17.4	4,724,374	3.3	

Source: Company, BOBCAPS Research | 3W: Three-wheelers

Fig 3 – Average realisation

(Rs/vehicle)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	Comment
AL	1,962,916	1,898,505	3.4	1,933,563	1.5	<ul style="list-style-type: none"> Realisation gains were limited due to festive offers and year-end discounts. Cost inflation contributed by normative factors (introduced by the government) will continue to be passed through.
BJAUT	101,201	94,736	6.8	102,545	(1.3)	
EIM	177,758	162,156	9.6	171,437	3.7	
ESCORTS	892,477	807,732	10.5	929,068	(3.9)	
HMCL	66,604	64,782	2.8	66,680	(0.1)	
MM	807,643	768,247	5.1	804,593	0.4	
MSIL	664,570	623,387	6.6	671,348	(1.0)	
TVSL	74,897	74,429	0.6	74,765	0.2	
VSTT	281,437	237,618	18.4	228,850	23.0	
Aggregate	558,834	525,733	6.3	553,650	0.9	

Source: Company, BOBCAPS Research

Fig 4 – EBITDA growth

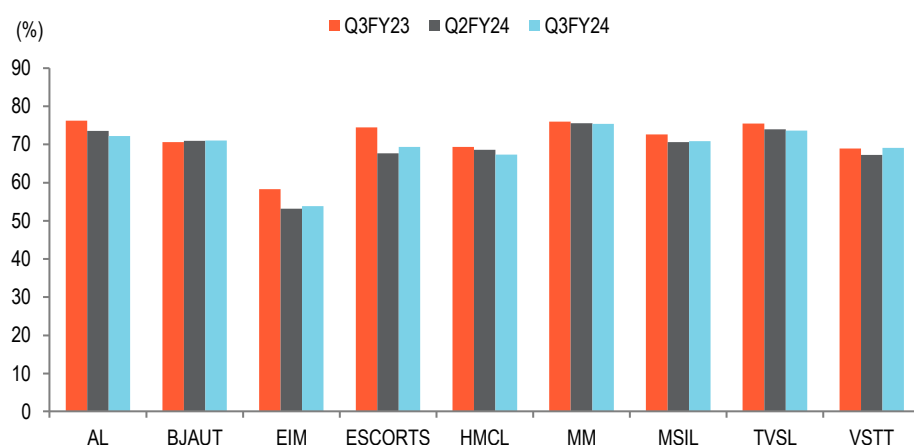
(Rs mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	Comment
AL	11,139	7,973	39.7	10,798	3.2	<ul style="list-style-type: none"> EBITDA growth was healthy in Q3 as raw material costs eased YoY. All OEMs reported strong EBITDA growth YoY, except for VSTT which reported a decline due to a fall in revenue and cost escalation.
BJAUT	24,299	17,740	37.0	21,329	13.9	
EIM	11,148	8,569	30.1	10,974	1.6	
ESCORTS	3,127	2,003	56.1	2,633	18.8	
HMCL	13,620	9,241	47.4	13,283	2.5	
MM	32,364	28,142	15.0	29,341	10.3	
MSIL	39,079	28,331	37.9	47,842	(18.3)	
TVSL	9,244	6,589	40.3	8,998	2.7	
VSTT	95	233	(59.1)	431	(77.9)	
Aggregate	144,116	108,822	32.4	145,628	(1.0)	

Source: Company, BOBCAPS Research

Availability and cost of raw material both eased YoY, giving respite to the auto industry

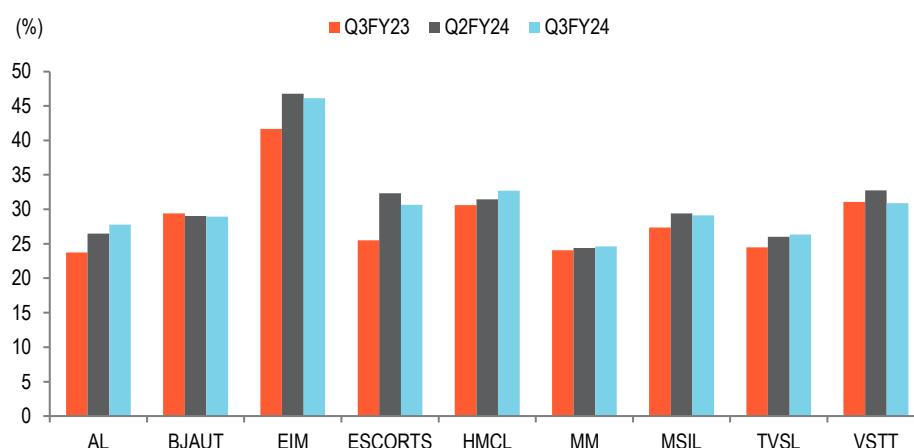
Raw material-to-sales dropped by an average of 3.1% YoY for our coverage, with 2Ws being the biggest contributor

Fig 5 – Raw material cost-to-sales



Source: Company, BOBCAPS Research

Fig 6 – Gross margin

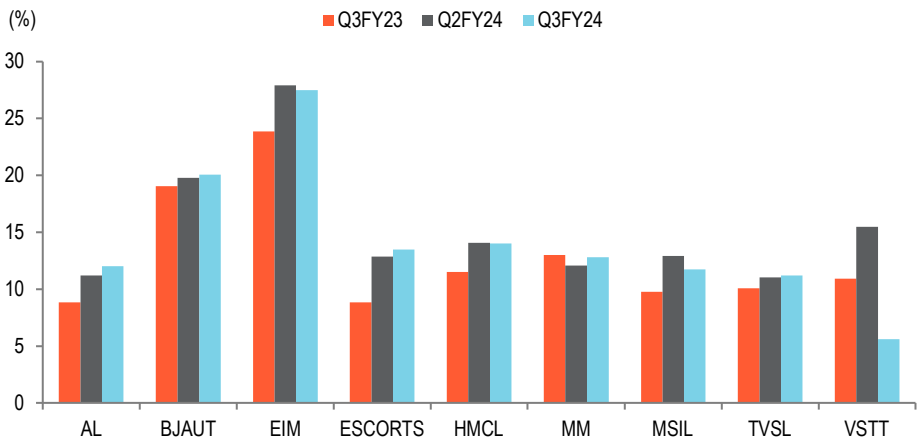


Source: Company, BOBCAPS Research

Aggregate gross margin expanded 213bps YoY to ~31%, mostly contributed by softening raw material cost

Aggregate EBITDA margin gains of 170bps YoY to 13.8% were contributed by raw material cost savings as average realisation of our coverage grew just 6% YoY

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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