

## Covid-19 stalls recovery hopes

**Weak dispatches in Q4FY20 due to BS-IV inventory liquidation and the March lockdown saw aggregate FY20 volumes declining at record rates. We expect a 34% YoY drop in Q4 aggregate EBITDA for our auto coverage. Covid-19 restrictions and the subsequent economic impact will hurt discretionary demand – we cut volume forecasts and reduce FY21/FY22 earnings 35-60% (20-29% ex-TTMT). Valuations post the sharp correction are close to the 10-year mean. Prefer companies with strong balance sheet and FCF prospects. Top picks: MSIL, EIM.**

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**Yet another weak quarter:** All auto OEMs reported soft dispatch volumes in Q4FY20 due to (1) BS-IV inventory destocking ahead of emission norm change, (2) slow ramp-up of BS-VI vehicle production for some OEMs due to component shortage from Chinese suppliers post Covid-19-led plant closures, and (3) the India lockdown which hit production/sales for 7-10 days. We expect our coverage companies to report a 26% YoY decline in topline for Q4. Negative operating leverage is likely to dent margins and drive a 34% YoY fall in EBITDA.

**FY20 – a year to forget:** Significant price hikes in two-wheelers and passenger vehicles over the last 18 months in a weak macro climate, curtailed dispatches ahead of BS-VI transition, and the lockdown impact in March have prompted a slump in volumes across categories in FY20. MHCVs saw the largest decline at 42% YoY followed by 18% slippage in PV and 2W volumes. Market leaders in each of these segments saw flat to slight improvement in market share in FY20.

**Covid-19 clouds FY21 outlook:** In addition to the production/sales impact during the lockdown period, the economic fallout from the pandemic could hurt discretionary consumption, at least for the next couple of quarters. Assuming the lockdown is lifted in the next two weeks as scheduled, we build in a volume decline in H1FY21 and a rebound from the second half. For FY21, we estimate that volumes will slip 10%/7.5%/7.5% for the MHCV/PV/2W segments.

**Maintain Maruti, Eicher as top picks:** We cut FY21/FY22 earnings estimates across our coverage by 35-60% (20-29% ex-Tata Motors) to reflect weak volumes, and also pare our target P/E by 10% for most companies. Stocks have corrected 25-60% in 2020 YTD, making valuations more palatable in some cases (such as Mahindra & Mahindra: upgrade from ADD to BUY, and Ashok Leyland: up from SELL to REDUCE). We prefer companies with robust net-cash balance sheets and healthy FCF potential (Maruti & Eicher are top picks).

### RECOMMENDATION SNAPSHOT

Ticker	Price	Target	Rating
AL IN	44	43	REDUCE
BJAUT IN	2,325	2,630	ADD
EIM IN	13,490	18,100	BUY
HMCL IN	1,835	2,140	BUY
MM IN	330	400	BUY
MSIL IN	5,009	6,100	BUY
TTMT IN	74	82	ADD
TVSL IN	309	310	REDUCE

Price & Target in Rupees



**FIG 1 – BOBCAPS AUTO OEMS UNIVERSE: Q4FY20 PREVIEW**

Particulars (Rs mn)	Q4FY20E	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	Comments
<b>Ashok Leyland (AL)</b>						
Revenue	35,234	88,459	(60)	40,157	(12)	Expect a sharp dip in revenue led largely by volume decline ahead of BS-VI changeover. EBITDA margin is forecast to fall ~800bps YoY on elevated discount levels and negative operating leverage. Weak operating performance and high fixed costs would drive AL's loss for the quarter.
EBITDA	1,036	9,854	(89)	2,252	(54)	
EBITDA margin (%)	2.9	11.1	-	5.6	-	
Adj. PAT	(306)	6,647	NA	299	NA	
<b>Bajaj Auto (BJAUT)</b>						
Revenue	64,585	73,952	(13)	76,397	(15)	Export volume growth of 7% YoY restricted total volume decline for BJAUT at 17% in Q4. ASPs are likely to improve aided by price hikes, limiting revenue decline at 13% YoY. EBITDA margin at 15.6% is likely to be flattish YoY but down ~230bps QoQ due to negative operating leverage.
EBITDA	10,080	11,623	(13)	13,672	(26)	
EBITDA margin	15.6	15.7	-	17.9	-	
Adj. PAT	9,473	10,662	(11)	12,616	(25)	
<b>Eicher Motors (EIM)</b>						
Revenue	21,798	25,001	(13)	23,710	(8)	Volumes for RE/VECV declined by 17%/45% YoY. We estimate that ~55% of RE volumes in Q4 comprised BS-VI models which drives a ~4% QoQ rise in ASP. Operating margin is likely to decline 120bps QoQ, reflecting partial BS-VI changeover effect and negative operating leverage.
EBITDA	5,181	6,847	(24)	5,923	(13)	
EBITDA margin	23.8	27.4	-	25.0	-	
Adj. PAT	4,285	5,448	(21)	4,987	(14)	
<b>Hero MotoCorp (HMCL)</b>						
Revenue	60,056	81,652	(26)	69,967	(14)	Revenue is expected to fall 26% YoY with weak volumes and higher discounts to liquidate BS-IV inventory. Margins would be severely impacted due to profitability pressure from discounting, seasonal uptick in A&P spends and negative operating leverage.
EBITDA	7,013	13,496	(48)	10,390	(33)	
EBITDA margin	11.7	16.5	-	14.8	-	
Adj. PAT	5,617	10,106	(44)	8,804	(36)	
<b>M&amp;M (MM+MVML)</b>						
Revenue	86,395	138,079	(37)	121,203	(29)	Revenues for MM+MVML are expected to decline by 37% YoY led by volumes dip of 47%/3% for Auto/Tractor segments. Auto segment collapse was partly due to supply constraints for BS-VI components. Negative operating leverage is likely to hurt margins by 160bps YoY
EBITDA	10,249	18,678	(45)	17,888	(43)	
EBITDA margin	11.9	13.5	-	14.8	-	
Adj. PAT	5,757	10,740	(46)	9,808	(41)	
<b>Maruti Suzuki (MSIL)</b>						
Revenue	184,899	214,594	(14)	207,068	(11)	Revenue is forecast to decrease 14% YoY led by volume decline of 16%. Expect sequential reduction in discount levels from peak in Q3. However, negative operating leverage will adversely affect margins.
EBITDA	18,168	22,634	(20)	21,021	(14)	
EBITDA margin	9.8	10.5	-	10.2	-	
Adj. PAT	13,690	17,956	(24)	15,648	(13)	
<b>Tata Motors (TTMT)</b>						
Revenue	648,962	864,220	(25)	716,761	(9)	JLR/India volumes declined by 21%/47% YoY in Q4, resulting in an estimated 25% YoY drop in revenue. Despite JLR's GBP 400mn cost reduction target for Q4, we expect JLR EBITDA margins to decline 20bps YoY/120bps QoQ to 9.6% due to negative operating leverage and an inferior regional mix.
EBITDA	63,374	90,922	(31)	82,058	(23)	
EBITDA margin	9.8	10.5	-	11.4	-	
Adj. PAT	(14,258)	17,348	NA	14,543	NA	
<b>TVS Motors (TVSL)</b>						
Revenue	32,468	43,840	(26)	41,255	(21)	Expect revenue to decline by 26% YoY driven by a sharp 30% drop in volumes, albeit partly offset by ASP improvement. Despite likely sharp gross margin improvement YoY due to lower commodity prices and aggressive localisation efforts, we expect EBITDA margin to dip 30bps YoY to 6.7%.
EBITDA	2,185	3,081	(29)	3,633	(40)	
EBITDA margin	6.7	7.0	-	8.8	-	
Adj. PAT	673	1,338	(50)	1,971	(66)	

Source: Companies, BOBCAPS Research

FIG 2 – Q4FY20 VOLUME SNAPSHOT

Company	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)
<b>Ashok Leyland</b>	<b>25,504</b>	<b>59,521</b>	<b>(57.2)</b>	<b>31,200</b>	<b>(18.3)</b>
HCVs	16,953	44,019	(61.5)	18,117	(6.4)
LCVs	8,551	15,502	(44.8)	13,083	(34.6)
<b>Bajaj Auto</b>	<b>991,961</b>	<b>1,193,590</b>	<b>(16.9)</b>	<b>1,202,486</b>	<b>(17.5)</b>
2W - Domestic	403,084	610,094	(33.9)	542,978	(25.8)
2W - Exports	450,456	391,889	14.9	484,183	(7.0)
3W - Domestic	75,076	102,258	(26.6)	96,736	(22.4)
3W - Exports	63,345	89,349	(29.1)	78,589	(19.4)
<b>Eicher Motors</b>	<b>174,499</b>	<b>217,172</b>	<b>(19.6)</b>	<b>195,172</b>	<b>(10.6)</b>
RE	162,870	196,162	(17.0)	182,781	(10.9)
VECV	11,629	21,010	(44.7)	12,391	(6.1)
<b>Hero MotoCorp</b>	<b>1,334,511</b>	<b>1,781,250</b>	<b>(25.1)</b>	<b>1,540,868</b>	<b>(13.4)</b>
<b>Mahindra &amp; Mahindra</b>	<b>152,233</b>	<b>235,647</b>	<b>(35.4)</b>	<b>216,816</b>	<b>(29.8)</b>
Auto	92,943	174,679	(46.8)	132,361	(29.8)
Tractors	59,290	60,878	(2.6)	84,455	(29.8)
<b>Maruti Suzuki</b>	<b>385,025</b>	<b>458,479</b>	<b>(16.0)</b>	<b>437,361</b>	<b>(12.0)</b>
Domestic	360,428	428,863	(16.0)	413,698	(12.9)
Exports	24,597	29,616	(16.9)	23,663	3.9
<b>Tata Motors</b>	<b>228,399</b>	<b>354,557</b>	<b>(35.6)</b>	<b>274,829</b>	<b>(16.9)</b>
Tata Motors (Standalone)	101,420	193,015	(47.5)	129,445	(21.7)
Tata Motors (JLR)	126,979	161,542	(21.4)	145,384	(12.7)
<b>TVS Motor</b>	<b>632,920</b>	<b>907,328</b>	<b>(30.2)</b>	<b>821,521</b>	<b>(23.0)</b>
Domestic	429,062	711,703	(39.7)	604,610	(29.0)
Exports	203,858	195,625	4.2	216,911	(6.0)

Source: Companies, BOBCAPS Research, SIAM

FIG 3 – COMMODITY AND CURRENCY QUARTERLY TRENDS

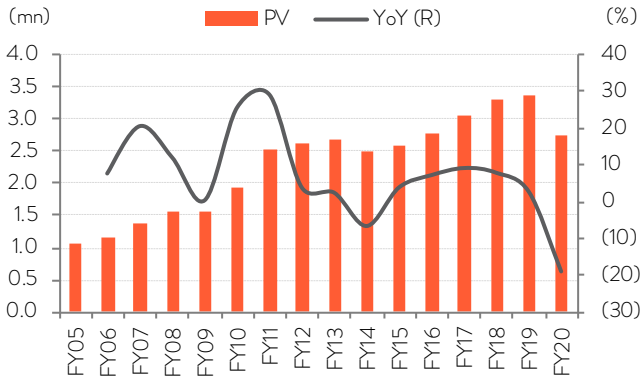
	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
<b>Key Commodities (USD)</b>										
<b>Aluminium</b>	<b>2,104</b>	<b>2,154</b>	<b>2,264</b>	<b>2,054</b>	<b>1,966</b>	<b>1,862</b>	<b>1,794</b>	<b>1,765</b>	<b>1,756</b>	<b>1,691</b>
QoQ (%)	4.7	2.4	5.1	(9.3)	(4.3)	(5.3)	(3.7)	(1.6)	(0.5)	(3.7)
<b>Lead</b>	<b>2,489</b>	<b>2,518</b>	<b>2,384</b>	<b>2,097</b>	<b>1,966</b>	<b>2,034</b>	<b>1,883</b>	<b>2,029</b>	<b>2,042</b>	<b>1,843</b>
QoQ (%)	6.8	1.2	(5.3)	(12.0)	(6.2)	3.5	(7.4)	7.7	0.6	(9.8)
<b>Brent oil</b>	<b>61</b>	<b>67</b>	<b>75</b>	<b>75</b>	<b>68</b>	<b>63</b>	<b>69</b>	<b>62</b>	<b>63</b>	<b>51</b>
QoQ (%)	18.7	9.1	11.2	1.0	(10.1)	(6.8)	8.5	(9.7)	1.2	(19.2)
<b>Rubber (RS4) (Rs)</b>	<b>12,909</b>	<b>12,539</b>	<b>12,382</b>	<b>13,071</b>	<b>12,357</b>	<b>12,565</b>	<b>13,899</b>	<b>14,265</b>	<b>12,749</b>	<b>13,423</b>
QoQ (%)	(2.8)	(2.9)	(1.3)	5.6	(5.5)	1.7	10.6	2.6	(10.6)	5.3
<b>Hot rolled steel</b>	<b>4,220</b>	<b>4,084</b>	<b>4,168</b>	<b>4,300</b>	<b>3,926</b>	<b>3,802</b>	<b>3,949</b>	<b>3,793</b>	<b>3,720</b>	<b>3,602</b>
QoQ (%)	5.8	(3.2)	2.1	3.2	(8.7)	(3.2)	3.8	(3.9)	(1.9)	(3.2)
<b>Cold rolled steel</b>	<b>4,826</b>	<b>4,743</b>	<b>4,606</b>	<b>4,788</b>	<b>4,535</b>	<b>4,313</b>	<b>4,326</b>	<b>4,292</b>	<b>4,307</b>	<b>4,257</b>
QoQ (%)	6.7	(1.7)	(2.9)	4.0	(5.3)	(4.9)	0.3	(0.8)	0.4	(1.2)
<b>Key Currencies</b>										
<b>INR/USD</b>	<b>64.7</b>	<b>64.3</b>	<b>67.1</b>	<b>70.1</b>	<b>72.1</b>	<b>70.5</b>	<b>69.6</b>	<b>70.3</b>	<b>71.2</b>	<b>72.4</b>
QoQ (%)	0.7	(0.6)	4.2	4.5	2.9	(2.2)	(1.3)	1.1	1.3	1.6
<b>INR/EUR</b>	<b>76.2</b>	<b>79.0</b>	<b>79.9</b>	<b>81.5</b>	<b>82.3</b>	<b>80.1</b>	<b>78.2</b>	<b>78.2</b>	<b>78.9</b>	<b>79.9</b>
QoQ (%)	0.9	3.7	1.0	2.1	0.9	(2.6)	(2.4)	0.1	0.9	1.2
<b>INR/GBP</b>	<b>85.9</b>	<b>89.6</b>	<b>91.2</b>	<b>91.4</b>	<b>92.8</b>	<b>91.7</b>	<b>89.4</b>	<b>86.7</b>	<b>91.7</b>	<b>92.7</b>
QoQ (%)	2.1	4.2	1.8	0.2	1.5	(1.1)	(2.5)	(3.0)	5.7	1.1
<b>INR/JPY</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>
QoQ (%)	(1.0)	3.7	3.3	2.4	1.6	0.1	(1.1)	3.7	(0.1)	1.5
<b>USD/EUR</b>	<b>1.2</b>	<b>1.2</b>	<b>1.2</b>	<b>1.2</b>	<b>1.1</b>	<b>1.1</b>	<b>1.1</b>	<b>1.1</b>	<b>1.1</b>	<b>1.1</b>
QoQ (%)	0.2	4.3	(3.0)	(2.4)	(1.9)	(0.4)	(1.1)	(1.0)	(0.4)	(0.4)
<b>USD/GBP</b>	<b>1.3</b>	<b>1.4</b>	<b>1.4</b>	<b>1.3</b>	<b>1.3</b>	<b>1.3</b>	<b>1.3</b>	<b>1.2</b>	<b>1.3</b>	<b>1.3</b>
QoQ (%)	1.5	4.8	(2.3)	(4.2)	(1.3)	1.3	(1.3)	(4.1)	4.5	(0.6)

Source: Bloomberg, BOBCAPS Research

**FY20 sees volume slump across segments**

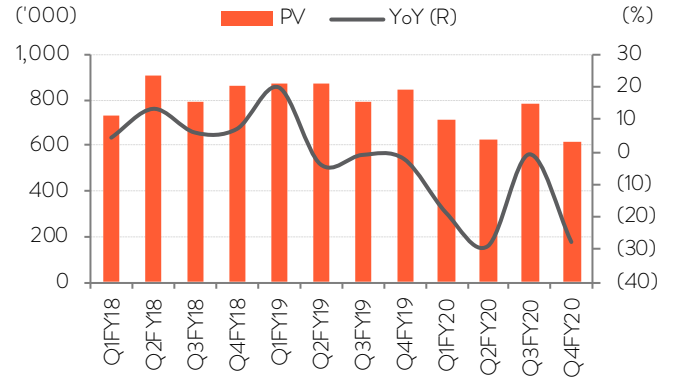
**PV – Volumes back down to FY16 levels**

**FIG 4 – PV 5-YEAR VOLUME CAGR AT 1%**



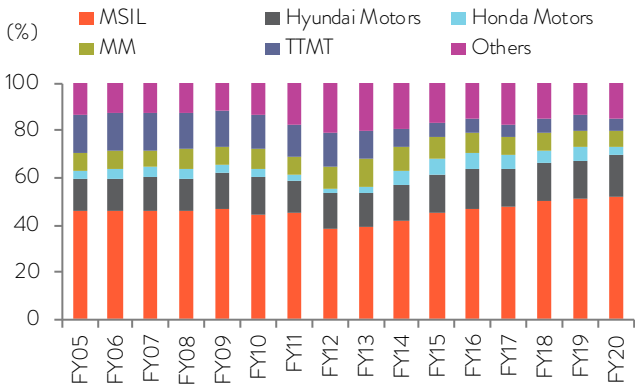
Source: SIAM, ET Autolytics, Companies, BOBCAPS Research

**FIG 5 – RECOVERY SEEN IN Q3 NOW STALLED**



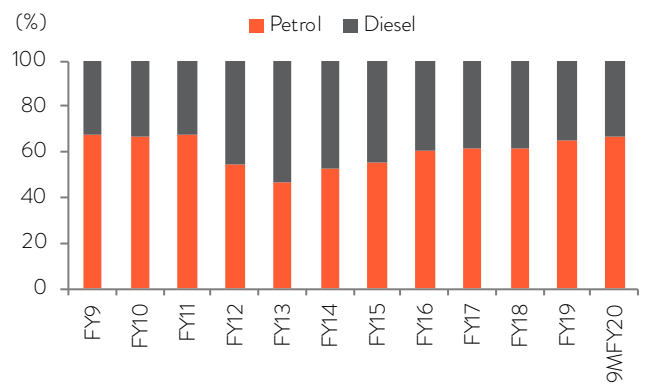
Source: SIAM, ET Autolytics, Companies, BOBCAPS Research

**FIG 6 – MSIL GAINED MARKET SHARE IN FY20**



Source: SIAM, ET Autolytics, Companies, BOBCAPS Research

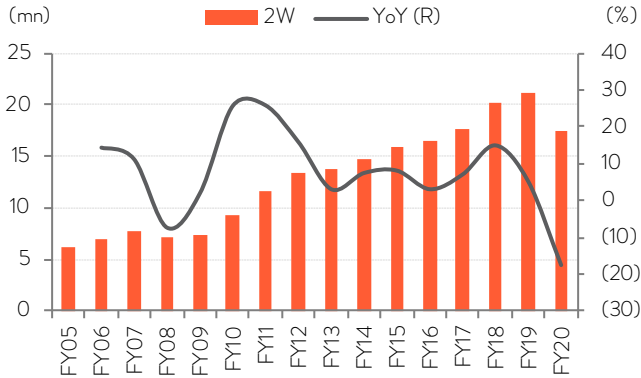
**FIG 7 – BS-VI TO INCREASE MIX TOWARDS PETROL**



Source: Media, BOBCAPS Research

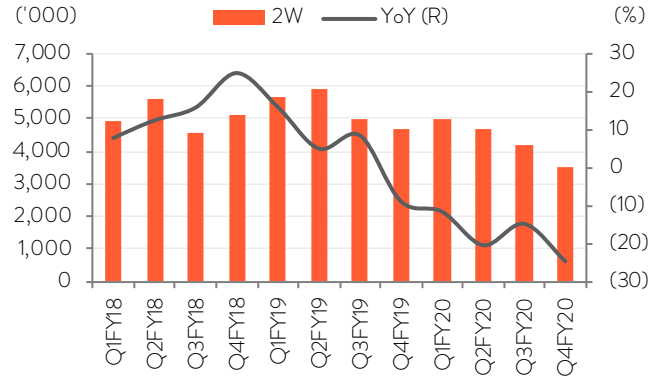
**2W – FY20 saw sharpest decline in decades**

**FIG 8 – SHARP COST HIKES HURT 2W DEMAND**



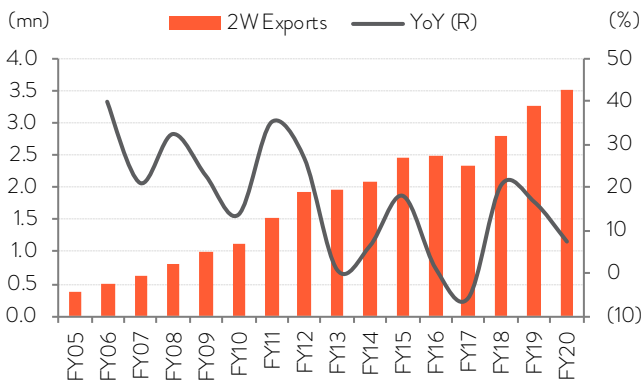
Source: SIAM, ET Autolytics, Companies, BOBCAPS Research

**FIG 9 – BS-VI RAMP-UP IMPEDED BY SUPPLY ISSUES**



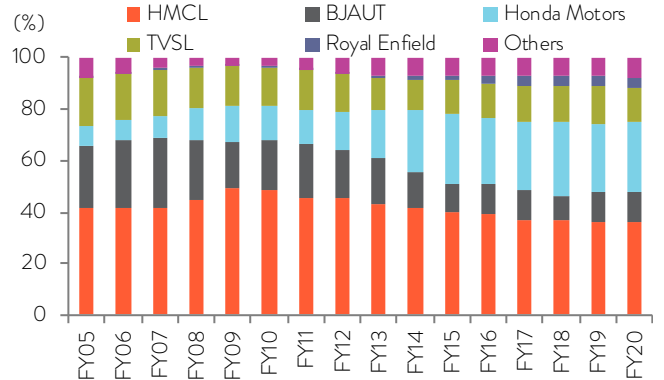
Source: SIAM, ET Autolytics, Companies, BOBCAPS Research

**FIG 10 – EXPORTS WERE HEALTHY IN PAST 3 YEARS**



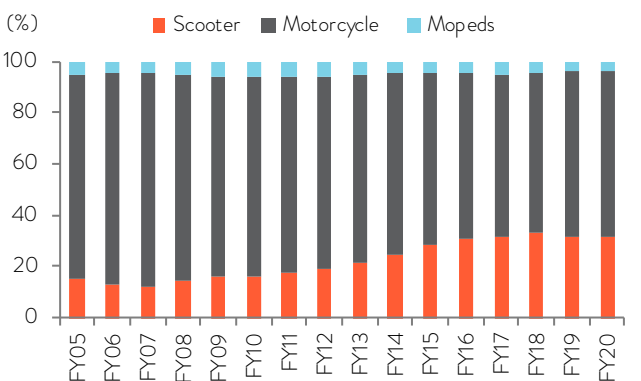
Source: SIAM, ET Autolytics, Companies, BOBCAPS Research

**FIG 11 – HMCL MAINTAINED MARKET SHARE IN FY20**



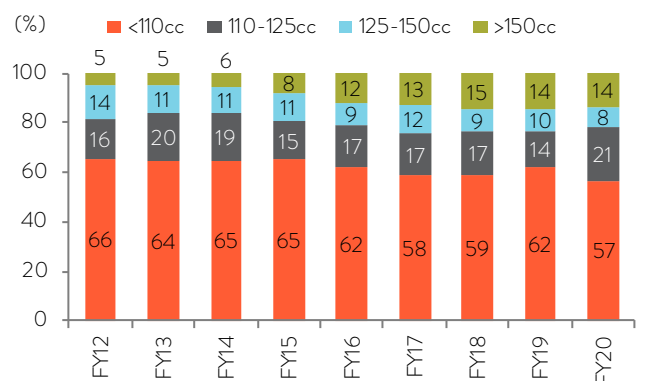
Source: SIAM, ET Autolytics, Companies, BOBCAPS Research

**FIG 12 – SCOOTER MIX STABILISING AT ~32%**



Source: SIAM, ET Autolytics, Companies, BOBCAPS Research

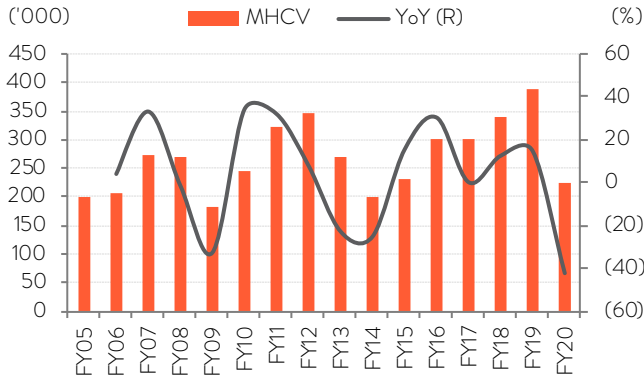
**FIG 13 – 110-125CC MIX ROSE WITH NEW LAUNCHES**



Source: SIAM, ET Autolytics, Companies, BOBCAPS Research

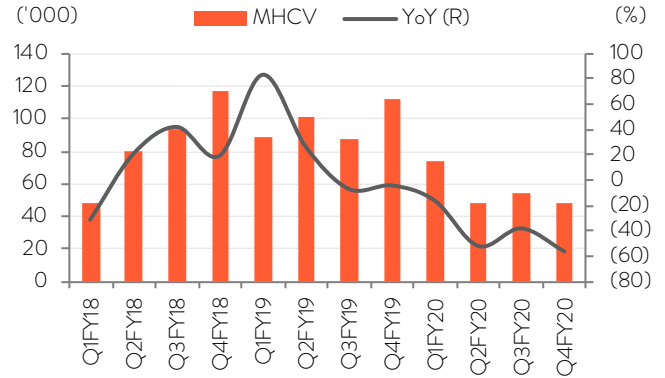
**CV – Confluence of negatives hurt MHCV demand**

**FIG 14 – WEAK MACROS AND AXLE NORM CHANGE DROVE SHARP DECLINE IN MHCVs**



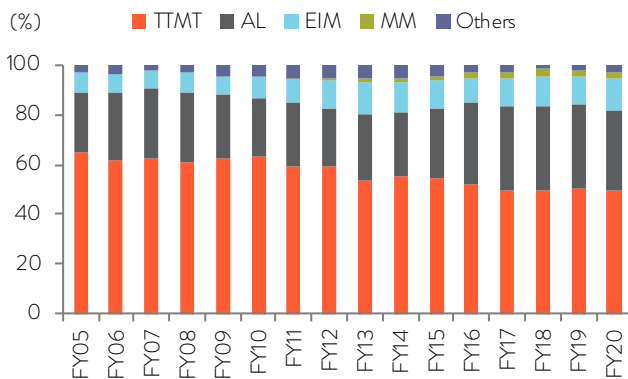
Source: SIAM, ET Autolytics, Companies, BOBCAPS Research

**FIG 15 – BS-IV INVENTORY LIQUIDATION HIT DISPATCHES IN H2FY20**



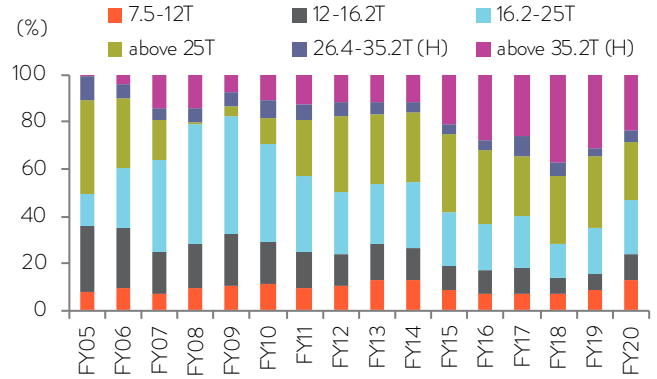
Source: SIAM, ET Autolytics, Companies, BOBCAPS Research

**FIG 16 – AL LOST ~200BPS YOY MARKET SHARE IN FY20**



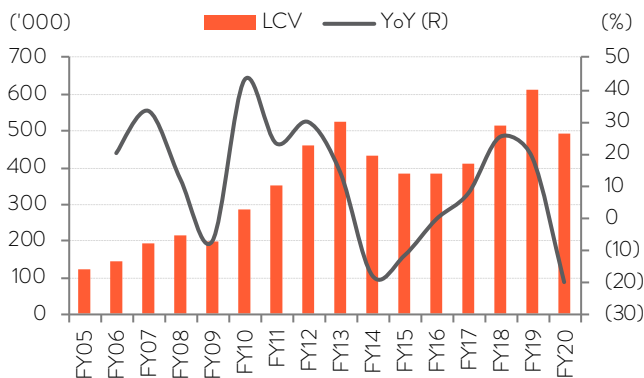
Source: SIAM, ET Autolytics, Companies, BOBCAPS Research

**FIG 17 – AXLE LOAD NORM CHANGES LED TO WEAKER TONNAGE MIX**



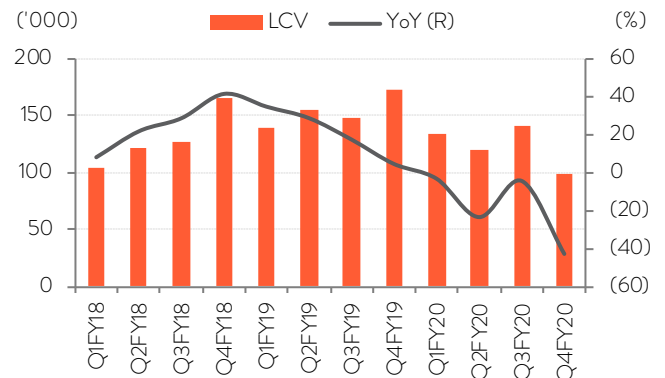
Source: SIAM, ET Autolytics, Companies, BOBCAPS Research

**FIG 18 – LCV VOLUMES DECLINED SHARPLY IN FY20**



Source: SIAM, ET Autolytics, Companies, BOBCAPS Research

**FIG 19 – LCV VOLUME DECLINE WAS SEEN WITH 3-QUARTER LAG TO MHCVs**



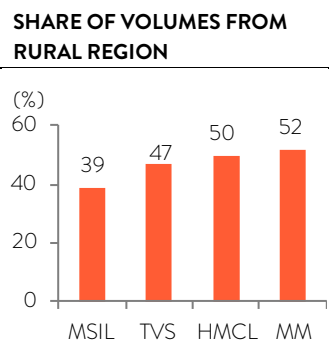
Source: SIAM, ET Autolytics, Companies, BOBCAPS Research

## FY21 recovery stalled by Covid-19

While the duration and extent of the Covid-19 impact is still murky, we assume that H1FY21 would witness a meaningful decline in volumes across auto segments and that recovery would start to play out from the Oct-Nov'20 festive season. A potential rise in preference for personal mobility in the wake of the pandemic could aid volume growth, especially if any meaningful fiscal stimulus is doled out to boost consumption.

In our view, B2C companies with high exposure to the rural segment would be better off as demand from rural markets should be less affected compared to urban centres. Mass 2W players derive ~50% of volumes and PV players MSIL and MM ~39-50% of volumes from rural markets.

Overall, we forecast a 7.5-10% YoY decline in volumes across segments for FY21, followed by a sharp rebound in FY22 after two consecutive years of demand contraction.



Source: Companies, BOBCAPS Research

### FIG 20 – VOLUME ESTIMATES

Domestic Volumes (in '000)	FY20	FY21E	FY22E
PV	2,792	2,581	2,949
YoY growth (%)	(17.2)	(7.5)	14.2
2W	17,417	16,116	18,010
YoY growth (%)	(17.7)	(7.5)	11.8
MHCV	223	200	260
YoY growth (%)	(42.9)	(10.1)	29.5

Source: SIAM, BOBCAPS Research

## Change in estimates

On the back of sharp volume cuts across segments, we revise aggregate earnings for our coverage universe down by 35-60% for FY21/FY22. Excluding TTMT which is expected to see a sharp downswing in profits, aggregate earnings stand reduced by 20-29% over FY21/FY22.

### FIG 21 – REVISED ESTIMATES

(Rs mn)	New Estimates			Old Estimates			Change (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
<b>Ashok Leyland</b>									
Volumes (nos)	125,253	112,728	138,933	141,346	147,476	162,691	(11.4)	(23.6)	(14.6)
Revenues	171,524	170,240	211,325	196,713	224,900	250,497	(12.8)	(24.3)	(15.6)
EBITDA	10,943	9,813	17,491	14,482	17,227	22,163	(24.4)	(43.0)	(21.1)
EBITDA margin (%)	6.4	5.8	8.3	7.4	7.7	8.8	(98.2)	(189.5)	(57.1)
Adj. PAT	3,533	1,881	7,346	6,054	7,555	10,957	(41.6)	(75.1)	(33.0)
Adj. EPS (Rs)	1.2	0.6	2.5	2.1	2.6	3.7	(42.7)	(75.4)	(32.4)

(Rs mn)	New Estimates			Old Estimates			Change (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
<b>Bajaj Auto</b>									
Volumes (nos)	4,615,212	4,177,670	4,601,146	4,845,903	5,093,762	5,414,078	(4.8)	(18.0)	(15.0)
Revenues	295,613	284,953	321,352	310,985	345,750	375,891	(4.9)	(17.6)	(14.5)
EBITDA	48,515	42,077	51,088	51,995	55,833	61,876	(6.7)	(24.6)	(17.4)
EBITDA margin (%)	16.4	14.8	15.9	16.7	16.1	16.5	(30.8)	(138.2)	(56.3)
Adj. PAT	47,370	41,347	49,087	50,398	54,750	60,596	(6.0)	(24.5)	(19.0)
Adj. EPS (Rs)	163.7	142.9	169.6	174.2	189.2	209.4	(6.0)	(24.5)	(19.0)
<b>Eicher Motors</b>									
Volumes (nos)	695,829	640,163	733,767	736,145	811,860	895,461	(5.5)	(21.1)	(18.1)
Revenues	91,252	89,590	104,812	96,026	112,737	127,776	(4.9)	(20.5)	(18.0)
EBITDA	22,662	20,567	25,599	23,957	27,194	31,591	(7.0)	(25.5)	(20.0)
EBITDA margin (%)	24.8	23.0	24.4	24.9	24.1	24.7	(53.7)	(152.5)	(61.8)
Adj. PAT	19,549	16,134	21,613	20,816	23,372	27,868	(5.1)	(30.8)	(20.6)
Adj. EPS (Rs)	716.6	591.4	792.3	763.1	856.7	1,021.6	(6.1)	(31.0)	(22.4)
<b>Hero MotoCorp</b>									
Volumes (nos)	6,409,719	5,976,261	6,662,659	6,418,572	6,084,046	6,781,158	(0.1)	(1.8)	(1.7)
Revenues	286,033	298,780	336,060	289,315	306,513	344,781	(1.1)	(2.5)	(2.5)
EBITDA	39,993	37,084	45,002	42,005	38,211	45,883	(4.8)	(2.9)	(1.9)
EBITDA margin (%)	14.0	12.4	13.4	14.5	12.5	13.3	(53.7)	(5.4)	8.3
Adj. PAT	28,469	27,209	32,916	30,559	28,107	33,669	(6.8)	(3.2)	(2.2)
Adj. EPS (Rs)	142.5	136.2	164.8	153.0	140.7	168.6	(6.8)	(3.2)	(2.3)
<b>Mahindra &amp; Mahindra</b>									
Volumes (nos)	777,957	712,022	806,100	844,211	846,459	905,674	(7.8)	(15.9)	(11.0)
Revenues	445,002	429,250	491,998	487,800	519,725	569,877	(8.8)	(17.4)	(13.7)
EBITDA	61,480	51,792	64,456	68,667	67,587	76,880	(10.5)	(23.4)	(16.2)
EBITDA margin (%)	13.8	12.1	13.1	14.1	13.0	13.5	(26.1)	(93.9)	(39.0)
Adj. PAT	38,039	29,147	39,483	43,711	42,530	49,241	(13.0)	(31.5)	(19.8)
Adj. EPS (Rs)	30.6	23.5	31.8	35.2	34.2	39.6	(13.0)	(31.4)	(19.7)
<b>Maruti Suzuki</b>									
Volumes (nos)	1,563,497	1,455,605	1,659,109	1,636,030	1,764,497	1,907,290	(4.4)	(17.5)	(13.0)
Revenues	759,018	722,594	851,082	796,237	885,746	988,195	(4.7)	(18.4)	(13.9)
EBITDA	75,730	72,481	101,519	83,289	105,985	131,140	(9.1)	(31.6)	(22.6)
EBITDA margin (%)	10.0	10.0	11.9	10.5	12.0	13.3	(48.3)	(193.5)	(134.3)
Adj. PAT	57,279	52,120	73,597	62,511	79,356	98,701	(8.4)	(34.3)	(25.4)
Adj. EPS (Rs)	189.7	172.6	243.7	207.0	262.8	326.8	(8.4)	(34.3)	(25.4)
<b>Tata Motors</b>									
Volumes (nos)	998,779	903,062	1,044,747	1,091,790	1,146,430	1,259,742	(8.5)	(21.2)	(17.1)
Revenues	2,633,044	2,467,594	2,869,861	2,820,710	3,059,840	3,358,310	(6.7)	(19.4)	(14.5)
EBITDA	265,162	234,094	350,338	324,975	382,334	469,702	(18.4)	(38.8)	(25.4)
EBITDA margin (%)	10.1	9.5	12.2	11.5	12.5	14.0	(145.1)	(300.8)	(177.9)
Adj. PAT	(35,510)	(59,946)	12,951	14,342	36,973	82,432	NA	NA	(84.3)
Adj. EPS (Rs)	(9.9)	(15.7)	3.4	4.0	9.7	21.5	NA	NA	(84.3)
<b>TVS Motor</b>									
Volumes (nos)	3,263,468	3,015,757	3,336,509	3,541,286	3,754,430	4,053,834	(7.8)	(19.7)	(17.7)
Revenues	161,887	161,523	182,549	174,466	201,312	221,678	(7.2)	(19.8)	(17.7)
EBITDA	13,195	12,573	15,598	14,718	16,080	19,035	(10.3)	(21.8)	(18.1)
EBITDA margin (%)	8.2	7.8	8.5	8.4	8.0	8.6	(28.5)	(20.4)	(4.2)
Adj. PAT	5,970	4,823	6,758	6,958	7,394	9,352	(14.2)	(34.8)	(27.7)
Adj. EPS (Rs)	12.6	10.2	14.2	14.6	15.6	19.7	(13.9)	(34.9)	(27.8)

Source: Company, BOBCAPS Research

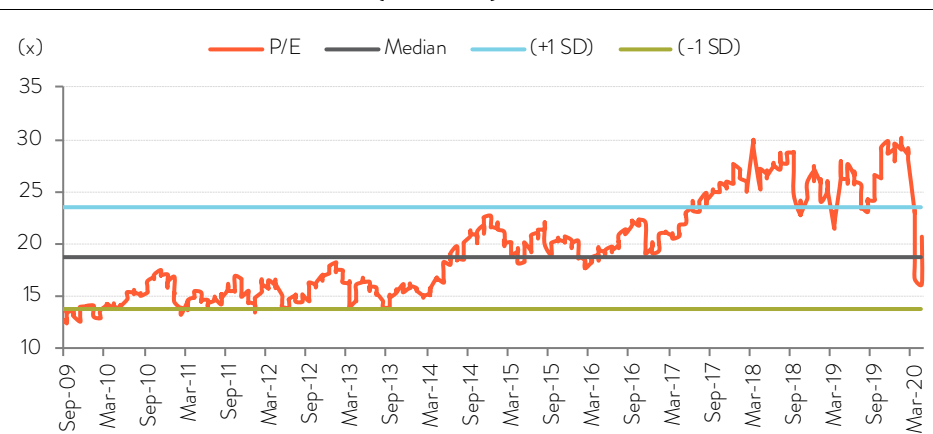


## Valuation and View

### Sector valuations near 10-year mean

With stocks across our auto coverage universe having corrected 25-60% since Jan'20, sector valuation (ex-TTMT) has contracted to ~21x P/E and is close to the 10-year median despite being based on depressed FY21E earnings.

**FIG 22 – SECTOR VALUATION (EX-TTMT)**



Source: Bloomberg, BOBCAPS Research

### Upgrade MM to BUY, AL to REDUCE; MSIL, EIM remain top picks

Within our coverage universe, we prefer companies with a robust net-cash balance sheet and potential to generate healthy FCFs even during phases of earnings decline. Given the expected moderation in FY20-FY22 earnings growth profile for all companies, we cut target FY22E P/E multiples by 10% for a majority of our auto coverage and hence lower target prices across the board. We maintain MSIL and EIM as our top picks in the space. In addition, we revise our ratings on MM from ADD to BUY and on AL from SELL to REDUCE mainly due to increased valuation comfort.

**FIG 23 – VALUATION SUMMARY**

Ticker	CMP (Rs)	New TP (Rs)	Old TP	New Rating	Old Rating	P/E		EV/EBITDA		Valuation basis
						FY21E	FY22E	FY21E	FY22E	
AL IN	44	43	64	REDUCE	SELL	69	18	15	8	8x FY22E EBITDA (earlier 17x FY22E EPS)
BJAUT IN	2,325	2,630	3,560	ADD	ADD	16	14	12	9	15.5x FY22E EPS
EIM IN	13,490	18,100	25,000	BUY	BUY	23	17	16	12	22x/8x FY22E EPS/EBITDA for RE/VECV
HMCL IN	1,835	2,140	2,190	BUY	BUY	13	11	7	6	13x FY22E EPS
MM IN	330	400	600	BUY	ADD	14	10	7	6	11x FY22E EPS + 45% hold-co discount to listed subsidiaries
MSIL IN	5,009	6,100	8,825	BUY	BUY	11	8	15	11	25x FY22E EPS
TTMT IN	74	82	212	ADD	ADD	NA	22	5	4	JLR/India business at 2.8x/10x FY22E EBITDA less net debt of Rs 146/sh
TVSL IN	309	310	475	REDUCE	REDUCE	30	22	13	10	20x FY22E EPS for core business + Rs 28/sh for stake in TVS Credit

Source: Company, BOBCAPS Research

Stock performance

FIG 24 – ASHOK LEYLAND



FIG 25 – BAJAJ AUTO

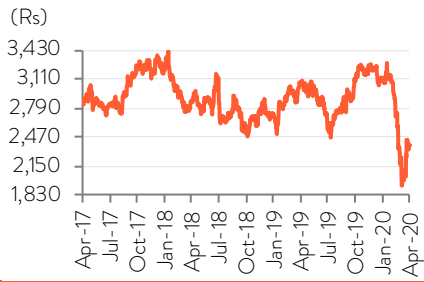


FIG 26 –EICHER MOTORS

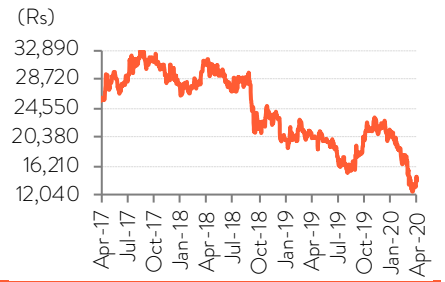


FIG 27 – HERO MOTOCORP

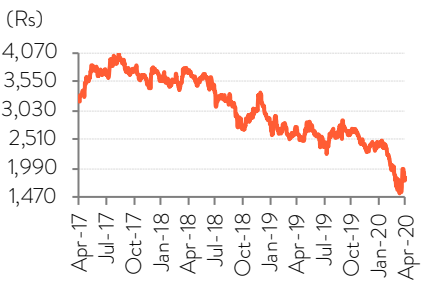


FIG 28 – MAHINDRA & MAHINDRA

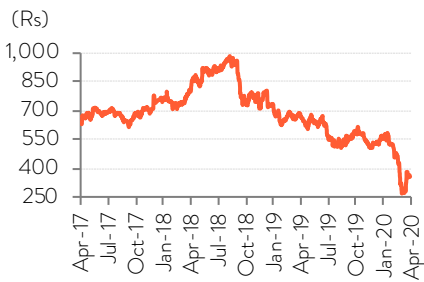


FIG 29 – MARUTI SUZUKI

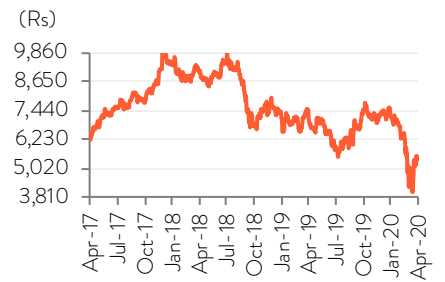


FIG 30 – TATA MOTORS

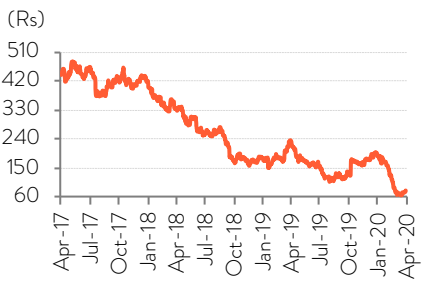
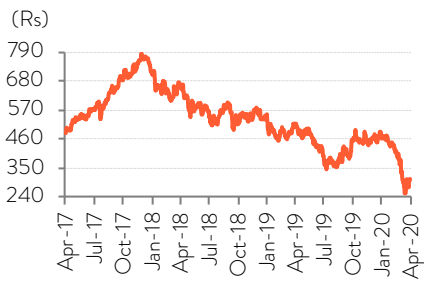


FIG 31 – TVS MOTOR



Source: NSE

## Disclaimer

### Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

**ADD** – Expected return from >+5% to +15%

**REDUCE** – Expected return from -5% to +5%

**SELL** – Expected return <-5%

**Note:** Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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