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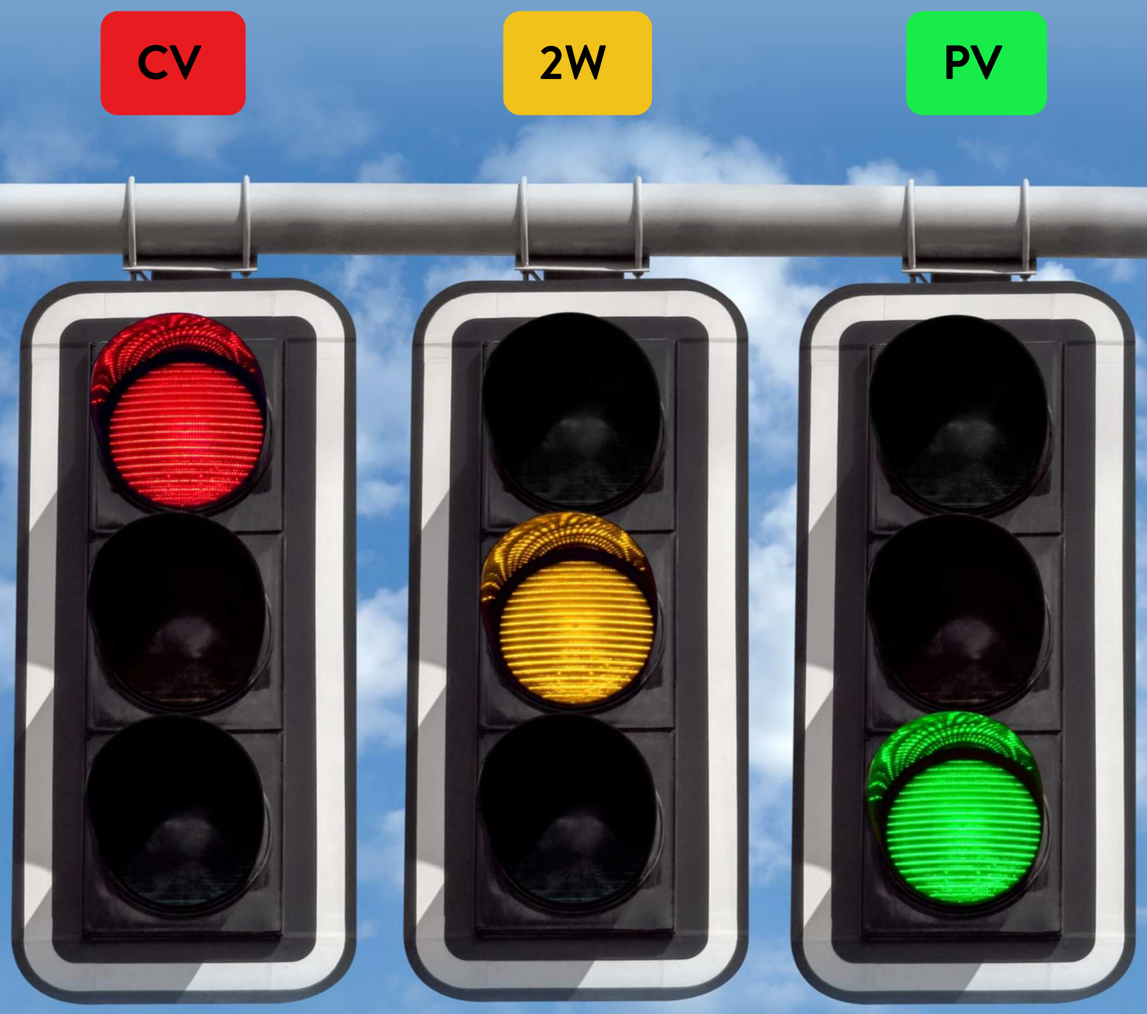

Automobiles

Mixed signals – prefer PVs, two-wheelers

January 2020

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AUTOMOBILES

20 January 2020

Mixed signals – prefer PVs, two-wheelers

The auto industry slump over the past five quarters has seen the Nifty Auto Index plunging ~40% over the 12 months to Sep'19. Subsequent improvement in retail sales and the corporate tax cut have aided a 25% pullback in the auto index. In our view, a low base, good monsoons and gradual macro revival should aid a cyclical recovery in auto volumes from FY21. But looming challenges from new emission norms and continued capacity overhang (in CVs) warrant a selective stock approach – MSIL & EIM are top picks; we are cautious on HMCL, TVSL & AL.

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Expect a cyclical recovery…: FY20 is likely to close with record low volume sales growth across major automotive segments. That said, the recent pickup in retail growth for passenger vehicles (PV) and two-wheelers (2W) during the Oct'19 festive season points to demand recovering in end-markets. A soft base, above average monsoons this year and gradual economic recovery should spur a cyclical rebound in volume growth from the next fiscal. However, with yet another regulatory-led cost push from new BS-VI emission norms in Apr'20, we do not envisage a V-shaped recovery.

…but recommend a selective approach: We prefer the PV segment given low incremental cost pressure from BS-VI changeover (in petrol models), moderate competitive stress and possible unlocking of pent-up demand. In 2Ws, we favour companies with a diversified mix or those with a lesser exposure to mass-market segments. The commercial vehicle (CV) segment warrants a cautious view due to a persistent supply overhang from the sharp rise in system capacity, stiff regulatory-led cost burden, and risk of freight movement shifting to rail upon dedicated freight corridor (DFC) commissioning in FY21.

Valuations above median, yet sustainable: In the past five years, auto sector valuations have rerated by ~20% compared to the preceding cycle. At 21x, the current one-year forward P/E multiple is above the median for the sector. In our view, valuations look sustainable as expected earnings recovery will trigger improvement in return ratios (ex-cash) and free cash flows.

Top picks: Building in prospects of a cyclical revival as well as structural hindrances, we identify Maruti Suzuki (MSIL) and Eicher Motors (EIM) as top picks. We have ADD ratings on Bajaj Auto (BJAUT), Tata Motors (TTMT) and Mahindra & Mahindra (MM). We are cautious on Hero MotoCorp (HMCL, REDUCE) and TVS Motor (TVSL, REDUCE), but negative on Ashok Leyland (AL, SELL).

RECOMMENDATION SNAPSHOT

Ticker	Price	Target	Rating
AL IN	84	68	SELL
BJAUT IN	3,118	3,470	ADD
EIM IN	21,292	25,000	BUY
HMCL IN	2,454	2,575	REDUCE
MM IN	569	625	ADD
MSIL IN	7,520	8,900	BUY
TTMT IN	197	220	ADD
TVSL IN	485	465	REDUCE

Price & Target in Rupees

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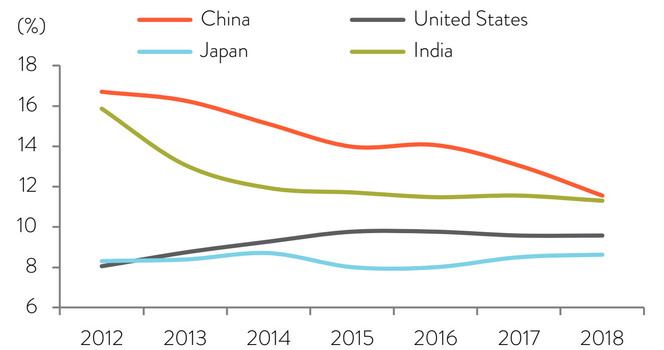
PVs

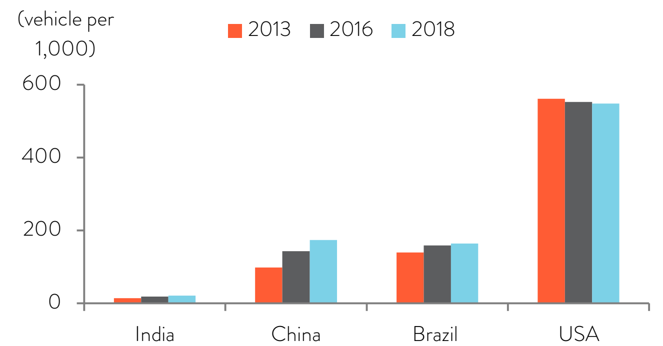
- Positive outlook based on cyclical recovery with long-term structural growth drivers
- Steady premiumisation and moderate competitive intensity support favourable operating environment
- Potential near-term regulatory concerns unlikely to have significant adverse impact on long-term growth outlook

FIG 1 – INDIA'S PV SALES AS % OF PARC SUGGEST SCOPE FOR REPLACEMENT DEMAND RECOVERY



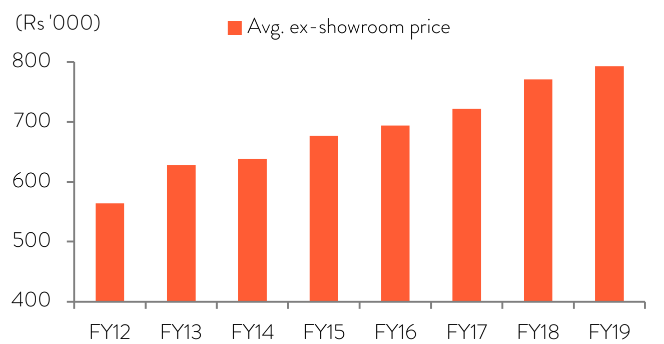
Source: World Bank, Bloomberg, BOBCAPS Research | Note: PV parc assumed on 12Y replacement cycle

FIG 2 – LOW VEHICLE PENETRATION SUPPORTS LONG-TERM GROWTH POTENTIAL



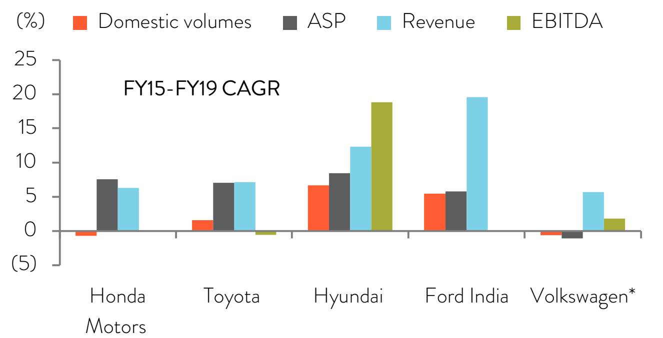
Source: World Bank, Bloomberg, BOBCAPS Research

FIG 3 – STEADY PREMIUMISATION IN PVs REFLECTED IN RISING PRICE POINTS



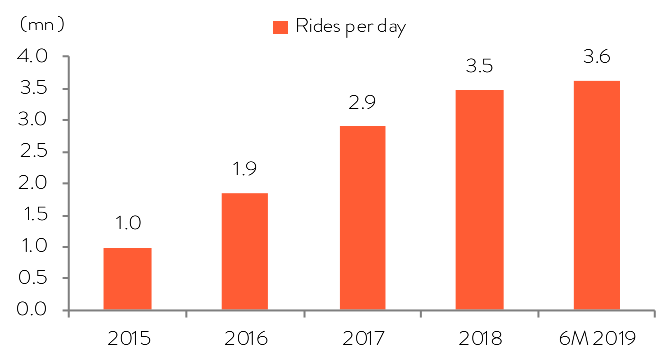
Source: SIAM, ET Autolytics, Media reports, BOBCAPS Research

FIG 4 – BARRING HYUNDAI, GLOBAL OEMs IN INDIA HAVE STRUGGLED, LIMITING COMPETITION



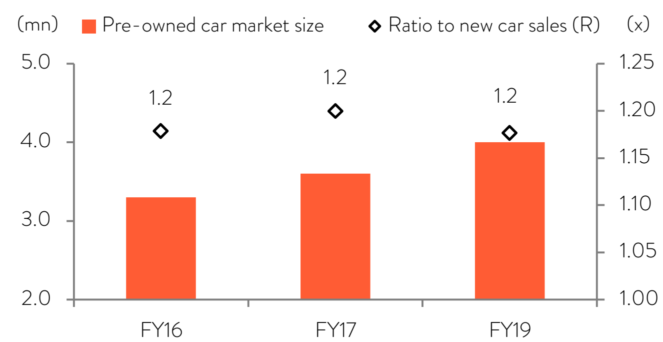
Source: BOBCAPS Research, Company, Capitaline | *FY15-FY18 for Volkswagen

FIG 5 – CAB AGGREGATOR GROWTH MODERATING; SHARED MOBILITY RISK LOOKS OVERSTATED



Source: Media reports, BOBCAPS Research

FIG 6 – PRE-OWNED VEHICLES NOT A BIG THREAT TO NEW VEHICLE SALES

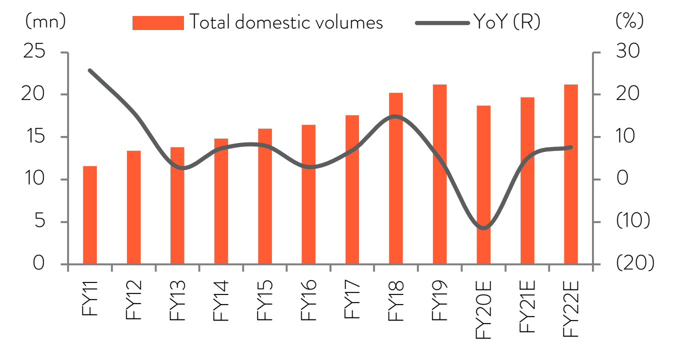


Source: IndianBlueBook, BOBCAPS Research

2Ws

- Expect moderate growth recovery but rising penetration poses long-term structural risk
- Competitive pressures to remain elevated compounded by BS-VI changeover impact
- Vehicle ownership economics supportive for electric scooters but adoption rate depends on infrastructure backbone

FIG 7 – EXPECT GRADUAL PICKUP IN DOMESTIC 2W VOLUMES



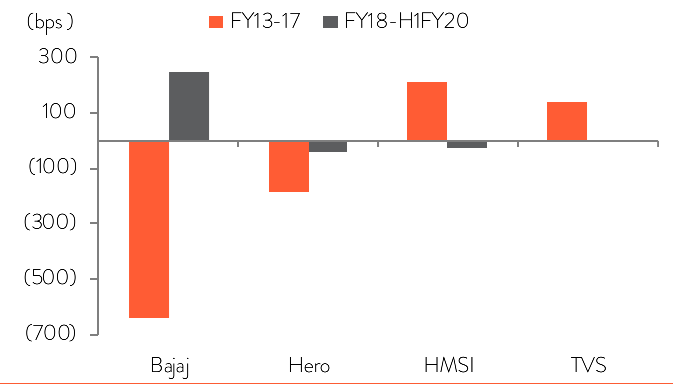
Source: SIAM, ET Autolytics, BOBCAPS Research

FIG 8 – 2W PENETRATION ESTIMATED TO RISE TO ~73% BY 2025 (HOUSEHOLD BASIS)

Particulars (mn)	% addressable HH	2011	2019	2025E
HH split – Based on income				
Next Billion: <Rs 150k/pa	30	27.3	21.7	16.2
Strugglers: Rs 150k-300k/pa	100	102.0	67.3	58.0
Aspirers: Rs 300k-500k/pa	100	31.0	60.6	79.0
Mid Affluent: Rs 500k-1mn/pa	90	10.8	41.5	54.9
Affluent: Rs 1mn-2mn/pa	50	1.0	10.9	18.0
Elite and Above: Rs 2mn/pa	10	0.2	0.9	1.6
Addressable HH (mn)		**172**	**203**	**228**
Target 2W HH 1.4x ownership	**1.4x**	**241**	**284**	**319**
2W vehicle parc (based on 12Y replacement)		74	164	234
2W penetration level (12Y) (%)		**31**	**58**	**73**
2W vehicle parc (based on 10Y replacement)		71	155	208
2W penetration level (10Y) (%)		**30**	**54**	**65**

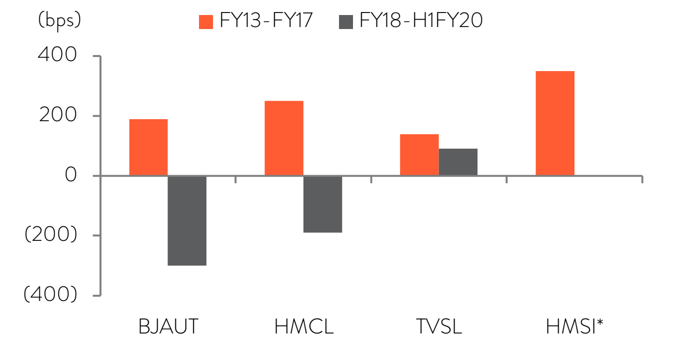
Source: SIAM, ET Autolytics, BCG Report, BOBCAPS Research

FIG 9 – BJAUT'S CHANGE IN STRATEGY LED TO MARKET SHARE GAINS IN DOMESTIC MOTORCYCLES POST FY18



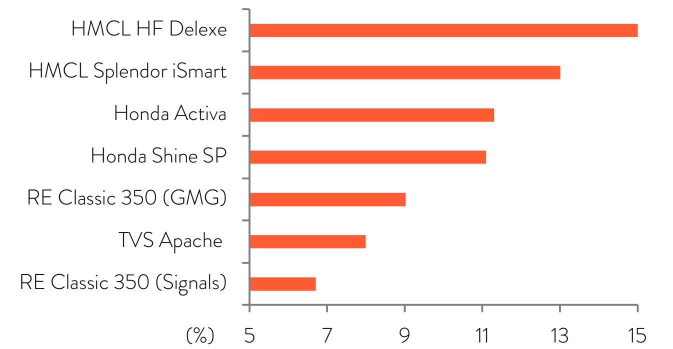
Source: SIAM, ET Autolytics, BOBCAPS Research

FIG 10 – EBITDA MARGIN CHANGES REFLECT INTENSE COMPETITION POST BJAUT'S AGGRESSIVE PRICING



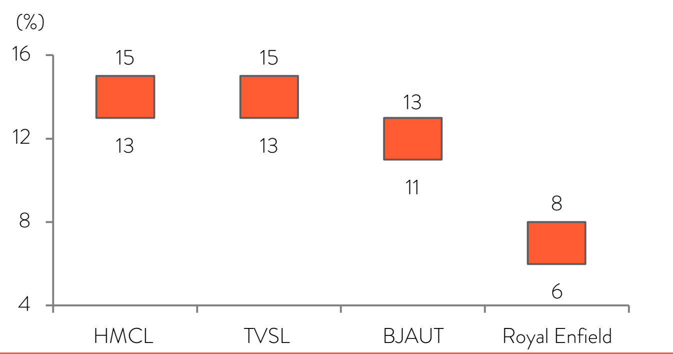
Source: Company, Capitaline, BOBCAPS Research | *HMSI data till FY19

FIG 11 – LARGE BS-VI LED PRICE RISE FOR ENTRY - LEVEL 2Ws



Source: Company, Media reports, BOBCAPS Research

FIG 12 – ESTIMATED WEIGHTED AVG. PRICE HIKE ON BS-VI TRANSITION FOR 2W PLAYERS



Source: Company, Media reports, BOBCAPS Research | Note: Impact based on ex-showroom prices

FIG 13 – ATHER S450 EV VS. ACTIVA 125CC BS-VI COMPARISON

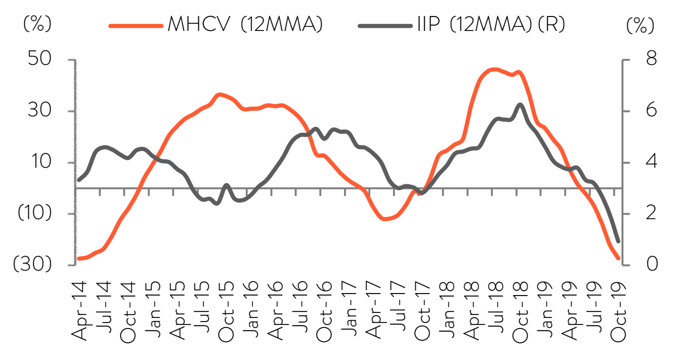
Particulars	Ather S450 EV	Ather S450 EV (ex-subsidy)	Activa 125CC BS-VI
On-road vehicle cost (Rs)	113,715	140,447	78,763
Cost per unit of energy (Rs)	10	10	73
Fuel efficiency (km/l)	55*	55*	45
Energy cost per km (Rs)	0.4	0.4	1.6
Avg km run (per year)	9,000	9,000	9,000
Energy cost per year (Rs)	3,927	3,927	14,600
Energy cost (5yrs) (Rs)	19,636	19,636	73,000
Maintenance cost (5yrs) (Rs)	5,000	5,000	10,000
Total ownership cost (5yrs)	**139,888**	**165,083**	**161,763**

Source: Media, BOBCAPS Research | *Range on full battery capacity of 2.4kWh (Sport mode)

CVs

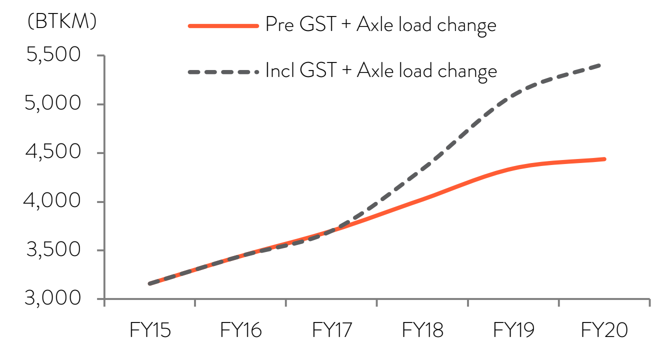
- Multiple near-to-mid-term challenges keep us cautious on the segment

FIG 14 – WEAK IIP GROWTH HURTING MHCV SALES…



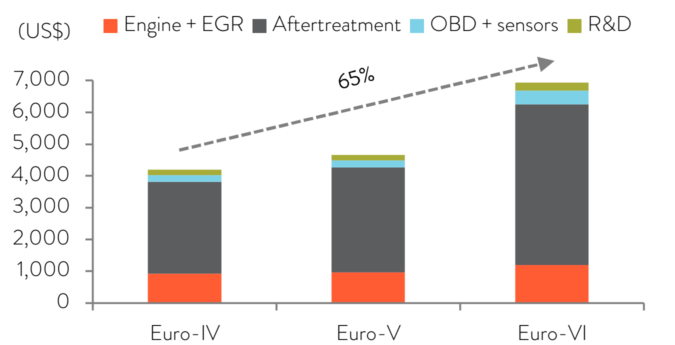
Source: RBI, SIAM, ET Autolytics, BOBCAPS Research

FIG 15 – …COMPOUNDED BY SHARP RISE IN SYSTEM FRIGHT CARRYING CAPACITY



Source: SIAM, ET Autolytics, Ministry of Road Transport & Highways, BOBCAPS Research

FIG 16 – TRANSITION TO EURO-VI SAW LARGE COST RISE; EXPECT SIMILAR HIKE UNDER BS-VI



Source: ICCT, BOBCAPS Research | Note: Based on cost rise for 12L CV engine

FIG 17 – DFC COMMISSIONING FROM NEXT YEAR POSES ADDITIONAL HEADWIND FOR MHCVs

	FY19	FY26E (ex-DFC)	CAGR (%)	FY26E (DFC)	CAGR (%)
NKTM (mn) on route impacted by WDFC	157,346	189,758	3	324,803	11
NKTM (mn) on route impacted by EDFC	106,618	128,581	3	220,087	11
NTKM on West and East routes relevant to DFC (mn)	263,964	318,339	3	544,890	11
Remaining routes NTKM (mn)	437,420	527,525	3	527,525	3
Total NTKM by on Rail (mn)	701,384	845,864	3	1,072,415	6
Incremental freight NTKM due to DFC (mn)				226,551	
Potential truck volumes impacted (nos)				**152,560**	

Source: Indian Railways, BOBCAPS Research

Investment summary

Expect a cyclical recovery

During FY20, most major automotive categories are likely to record the sharpest volume drop in the past two decades. A weak macro environment, lack of finance availability compounded by rising vehicle prices owing to regulatory changes has hurt demand. In addition, wholesale volumes are now being curtailed to manage the mandatory transition to new BS-VI emission standards in Apr'20.

Retail volumes for PVs and 2Ws did improve during the recent festive season (mainly in Oct'19), suggesting that demand weakness may have bottomed out. Given a low base, good monsoons this year and gradual improvement in GDP growth, we expect a cyclical recovery starting next year. Nonetheless, we do not see a case for a V-shaped recovery as another impending price hike (led by BS-VI) needs to be digested and income growth needs to catch up for affordability to improve. Though the YoY comparable base for the sector would turn benign from H2FY21, we recommend a selective investment approach as various challenges are yet to play out.

Prefer PVs over 2Ws and CVs

We prefer PVs for the low regulatory-linked cost rise, moderate competitive intensity and potential unlocking of pent-up demand. Within 2Ws, we like players that have a diversified revenue mix or low exposure to mass segments as these will be relatively less impacted by BS-VI changeover costs and competitive pressures. We are cautious on the CV category due to the continued supply overhang arising from GST-led efficiency gains and revised axle norms. In addition, the risk of a modal mix shift from road towards rail post DFC commissioning in FY21 could have a multi-year impact on truck demand.

FIG 18 – DOMESTIC VOLUME ESTIMATES ACROSS SEGMENTS

('000)	FY20E	FY21E	FY22E
PV	**2,895**	**3,134**	**3,461**
YoY growth (%)	(14)	8	10
2W	**18,749**	**19,680**	**21,168**
YoY growth (%)	(11)	5	8
MHCV	**266**	**267**	**304**
YoY growth (%)	(32)	1	13

Source: SIAM, ET Autolytics, BOBCAPS Research

Passenger vehicles – recovery in sight

In our view, the PV segment is best placed to benefit from a cyclical recovery. Volumes should perk up given only a modest cost hike on BS-VI transition (especially for petrol models), uptick in new launches post the changeover, and increase in replacement demand on macro recovery. Low penetration levels and rising incomes support a favourable long-term growth outlook. Demand for pre-owned cars and shared mobility may have some impact on the second-car buyer segment but is unlikely to pose structural growth concerns for PVs.

We expect PV industry volumes to drop 14% YoY in FY20 before reviving to clock a 9% CAGR over FY20-FY22. **MSIL (BUY, TP Rs 8,900)** is one of our top picks in the sector given its solid franchise and healthy earnings growth outlook over FY20-FY22. **MM (ADD, TP Rs 625)** faces multiple headwinds in its UV business, but prospects for its tractor segment (>50% of EBIT) are improving on the back of tailwinds from a healthy monsoon and strong winter (rabi) crop. Risk-reward appears favourable with valuations at 11x FY21E EPS for MM's core business (adj. for value in subsidiaries).

A strong near-term outlook for JLR but uncertain global auto demand prospects and heavy investment outlay for new technologies limit our optimism on **TTMT (ADD, TP Rs 220)**.

Two-wheelers – stay selective

Above average rainfall this year (lending impetus to rural demand) and a low base effect should kindle a cyclical uptick in 2W volume growth from next year. We recommend being selective as mass-market players are vulnerable to volume/ margin challenges from sharp cost rise (~6-15%) linked to the impending BS-VI changeover and elevated competitive pressures. Over the long term, 2Ws face saturation risk as our analysis suggests that penetration on a household basis will rise to ~73% by 2025. Vehicle ownership analysis already points towards favourable economics for electric scooters, but rate of adoption will depend on supporting infrastructure. We prefer companies with a diversified mix or those with low exposure to price-sensitive segments.

On a negative base in FY20 (–11% YoY), we estimate a 6% volume CAGR over FY20-FY22. Based on the aforementioned factors, we prefer **EIM (BUY, TP Rs 25,000)** and **BJAUT (ADD, TP Rs 3,470)** over **HMCL (REDUCE, TP Rs 2,575).** While we like **TVSL (REDUCE, TP Rs 465)** for its exports story and improving franchise in domestic scooters and premium motorcycles, rich valuations limit its upside potential.

Commercial vehicles – recovery still some way off

Our cautious view on the CV cycle is premised on a steep 10-15% cost rise on BS-VI migration and significant capacity overhang (~20% increase in industry-wide capacity post-GST/revised axle load norms), which we believe will take time to be fully absorbed. In addition, DFC operations commencing from FY21 could see road transport operators losing share to rail. We expect MHCV volumes to fall 32% YoY in FY20 and log a moderate 7% volume CAGR for FY20-FY22.

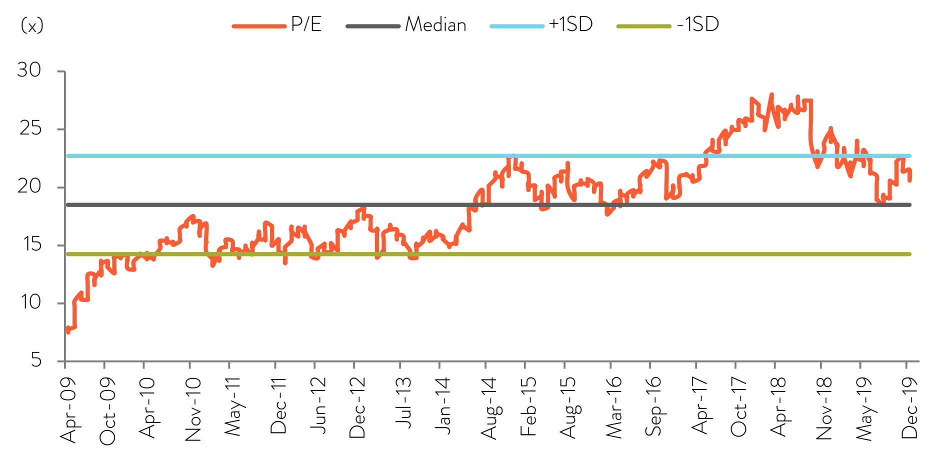
Our negative view on **AL (SELL, TP Rs 68)** stems from the anticipated headwinds to CV demand alongside potential margin challenges from a downward shift in tonnage mix post GST and cessation of Pantnagar tax benefits post FY20.

Sector valuations well above median level

The Nifty Auto Index has risen ~25% from the low it hit in Sep'19 after falling ~40% in the preceding 12 months. The rally in recent months has been partially driven by the corporate tax rate cut which provides a 7-8% earnings boost for our coverage universe. Healthy retail sales growth during the festival season (mainly Oct'19) points to a bottoming out of the end-market demand slump, which has also improved sentiments for auto stocks.

Over the past five years, median valuations for the sector (ex-TTMT) have moved up by ~20% compared to the preceding cycle. This was aided by an aggregate 18-20% earnings CAGR and healthy cash flow generation for most auto companies until FY18. Valuation multiples have come off the FY18 peak, but are still well above median levels.

FIG 19 – SECTOR VALUATIONS (EX-TTMT)



Source: Bloomberg, Company, BOBCAPS Research

FIG 20 – P/E VALUATIONS (ON-YEAR FORWARD) FOR AUTO OEMs

Company	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	Current*	5Y Avg	Premium/ (discount) (%)
AL	11	15	24	9	NA	18	21	22	17	19	22	22	(1)
BJAUT	6	13	15	16	17	19	18	20	20	17	17	18	(8)
EIM	17	26	28	26	22	35	35	31	36	32	24	33	(27)
HMCL	15	17	17	18	16	19	16	18	21	19	14	18	(22)
MM	8	12	12	11	13	19	19	19	15	16	15	17	(8)
MSIL	15	19	17	16	14	18	20	20	32	35	29	27	8
TTMT	NA	6	6	7	7	12	14	24	NA	NA	16	NA	-
TVSL	10	13	12	8	7	22	23	31	45	39	28	33	(16)

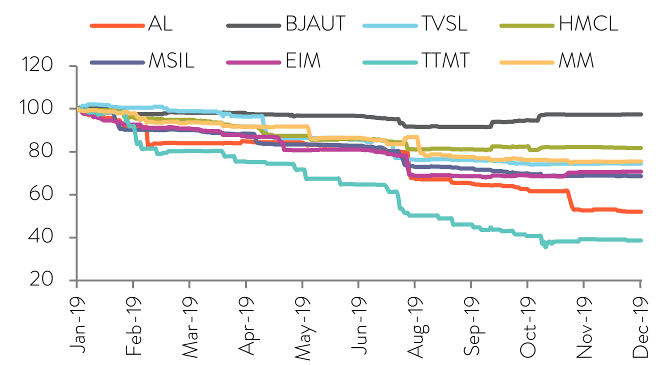
Source: Bloomberg, Companies, BOBCAPS Research | *Based on consensus estimate

Current valuations look sustainable

From a bottom-up perspective, we expect current valuations to hold. With an expected cyclical volume upturn from FY21, earnings growth should accelerate for most companies off the low base of FY19/FY20. Also, with capacity utilisation trailing below 70% across automotive segments, incremental investments on fixed assets should be low for the next couple of years. Thus, potential improvement in return ratios (ex-cash) and FCF should also support valuations.

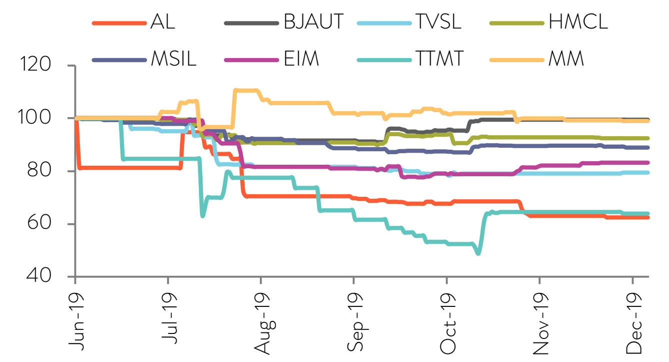
A top-down view on cyclical sectors typically shows that valuations tend to revert to the mean as earnings growth transitions from early- to mid-cycle, which for the auto sector seems likely post FY22.

FIG 21 – CONSENSUS EPS REVISION, INDEXED – FY21



Source: Bloomberg, BOBCAPS Research

FIG 22 – CONSENSUS EPS REVISION, INDEXED – FY22



Source: Bloomberg, BOBCAPS Research

CONSENSUS ESTIMATES

Company	FY20-22E CAGR (%)		
	Revenue	EBITDA	PAT
AL	13	24	28
BJAUT	10	9	9
EIM	14	17	15
HMCL	9	8	8
MSIL	12	24	25
MM	8	8	8
TTMT	8	18	175
TVSL	12	14	17
Aggregate	**9**	**16**	**25**
Aggregate (ex-TTMT)	**11**	**15**	**15**

Source: Bloomberg, BOBCAPS Research

Consensus building in healthy earnings recovery

Forecasting earnings at the turn of a cycle (either upcycle or downcycle) is bound to have a large margin of error. The extent of impact on earnings from BS-VI migration is an added uncertainty. Nonetheless, consensus is currently building in a healthy 15% CAGR in aggregate auto sector earnings (ex-TTMT) over FY20-FY22. Our aggregate earnings growth estimate for the sector at ~14% CAGR is similar to consensus but differs at the company level – we are below consensus for AL, HMCL and TVSL, while being above for MSIL and TTMT.

BOBCAPS auto universe: Investment thesis

Companies	Investment thesis
Ashok Leyland (AL) **SELL | TP: Rs 68** **▼19%**	▪ Capacity overhang, impending cost increases with BS-VI changeover and modal mix shift to rail post DFC commissioning would continue to exert pressure on MHCV demand. ▪ Downshift in tonnage mix and cessation of Pantnagar tax benefits will act as additional earnings headwinds. ▪ Valuations appear expensive at 30x/21x FY21E/FY22E EPS.
Bajaj Auto (BJAUT) **ADD | TP: Rs 3,470** **▲11%**	▪ Diversified mix and low exposure to mass 2W segments put BJAUT in a better position to navigate BS-VI transition. ▪ BJAUT is steadily rebuilding its domestic franchise. An upward shift in commuter segment mix and price hikes in premium motorcycles should offset margin pressures, despite continued focus on market share. ▪ Valuations look sustainable with 9% earnings CAGR (FY20E-FY22E), a strong FCF profile and cash/market cap of ~25%.
Eicher Motors (EIM) **BUY | TP: Rs 25,000** **▲17%**	▪ Royal Enfield (RE) has headroom for higher penetration in premium 2Ws. New products and platforms can spur upgrades and replacement demand. ▪ EBITDA/vehicle should rise steadily backed by operating leverage and normalised opex. ▪ An improving outlook on volumes and earnings should support current valuations of 25x FY21E EPS.
Hero MotoCorp (HMCL) **REDUCE | TP: Rs 2,575** **▲5%**	▪ Sharp cost increase for BS-VI and competitive pressures will weigh on HMCL's volume growth and margins. ▪ Inability to diversify the domestic portfolio and stagnant export volumes are worrying. ▪ Current valuations at 15x FY21E EPS are at ~15% discount to the past five-year average – ostensibly inexpensive but reflective of near-term headwinds and risk of growth stagnation over the mid-to-long term.
Mahindra & Mahindra (MM) **ADD | TP: Rs 625** **▲10%**	▪ Valuations reflect a bleak outlook for both autos and tractors. Fresh upgrades/launches in UVs and likely pickup in tractors in FY21 should partly alleviate volume concerns. ▪ MM aims to curtail losses in subsidiaries and is looking to cut costs at Ssyangyong to staunch the bleed. ▪ Risk-reward appears favourable with core business valuations at 11x FY21E EPS despite a modest earnings outlook.
Maruti Suzuki (MSIL) **BUY | TP: Rs 8,900** **▲18%**	▪ Broader demand recovery in PVs and the shift from diesel to petrol models in lower priced segments can partly offset potential market share loss from higher competition and a limited UV presence. ▪ Margins are at a seven-year low - operating leverage and lower discounts should drive margin expansion. ▪ We forecast a strong 25% earnings CAGR over FY20-FY22. Valuations are high but sustainable.
Tata Motors (TTMT) **ADD | TP: Rs 220** **▲12%**	▪ JLR's near-term growth outlook appears robust as a seasonal volume uptick in H2 would aid earnings and FCF. But the mid-to-long-term outlook is uncertain with challenges in major auto markets and elevated investments. ▪ India business prospects look tepid due to the likelihood of a protracted MHCV downcycle. ▪ We project sharp recovery in consolidated earnings off a low base led by JLR's EBIT margin expansion, but a ~50% upmove in the stock since Q2FY20 and cloudy long-term outlook restrict our optimism.
TVS Motor (TVSL) **REDUCE | TP: Rs 465** **▼4%**	▪ With an estimated 13-15% cost increase (BS-VI) on ~50% of its portfolio and a highly competitive domestic 2W market, the near-term outlook for volumes/margins appears challenging. ▪ After solid export growth in FY16-FY19, we see risk of a cyclical decline on a high base and soft global macros. ▪ TVSL does deserve to trade at a premium to peers, but current valuations at 27x FY21E EPS (adj for its stake in TVS Credit) limit upsides.

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Valuation snapshot

FIG 23 – VALUATION SUMMARY

Companies	Ticker	Price	Mcap (USD bn)	Rating	Target price	Upside/ Downside (%)	EBITDA CAGR (FY20E-FY22E)	Adj. PAT CAGR (FY20E-FY22E)
Ashok Leyland	AL IN	84	3.5	SELL	68	(19)	15	18
Bajaj Auto	BJAUT IN	3,110	12.7	ADD	3,470	12	10	9
Eicher Motors	EIM IN	21,292	8.2	BUY	25,000	17	15	16
Hero MotoCorp	HMCL IN	2,454	6.9	REDUCE	2,575	5	6	6
Mahindra Mahindra	MM IN	568	9.9	ADD	625	10	7	6
Maruti Suzuki	MSIL IN	7,550	32	BUY	8,900	18	24	25
Tata Motors	TTMT IN	197	10	ADD	220	12	18	130
TVS Motors	TVSL IN	488	3.2	REDUCE	465	(5)	14	15

Companies	EPS (Rs)			P/E (x)			EV/EBITDA (x)			ROE (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Ashok Leyland	3	3	4	30	30	21	13	13	11	10	9	12
Bajaj Auto	170	184	204	18	17	15	15	13	11	20	19	19
Eicher Motors	763	857	1,022	28	25	21	22	19	16	20	19	19
Hero MotoCorp	163	165	184	15	15	13	10	10	9	22	21	21
Mahindra Mahindra	35	34	40	16	17	14	10	10	9	12	10	11
Maruti Suzuki	212	266	330	36	28	23	22	18	14	13	15	16
Tata Motors	4	10	22	45	20	9	4	4	3	2	5	10
TVS Motors	14	15	19	34	32	25	17	16	13	18	16	18

Source: Company, BOBCAPS Research

Passenger vehicles: Recovery in sight

Expect cyclical upturn

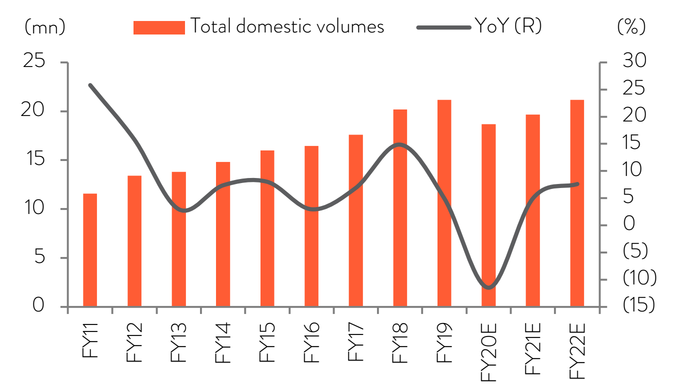
After a healthy domestic volume CAGR of 8% over FY15-FY18, PVs have posted negative growth for the past 5 quarters. The concurrent impact of weak consumer sentiments, a sharp increase in ownership cost due to revised insurance (effective Sep'18) and safety norms, and tight liquidity conditions dented demand.

We looked at available retail sales data for MSIL and Hyundai (~70% of the PV market) to better gauge underlying demand trends in the PV industry over the past few quarters. Retail volumes have softened from Q2FY19 onwards – Hyundai's retail sales were up just 1% YoY for Apr-Sep'18 vs. 4.9% growth for MSIL. Against this, wholesale volumes for Hyundai/MSIL increased by 3%/11%. Subsequent quarters saw a sharp fall in retail sales which prompted a pullback in wholesale volumes and deep production cuts by OEMs to rein in elevated inventory levels.

Demand did perk up during the recently concluded festive season (in October). Several PV players mentioned that they witnessed double-digit retail growth, partially driven by a bunching up of festive days, the low base effect, higher discounts and unlocking of pent-up demand post emergence of clarity regarding GST rates (government announced rates will remain unchanged). System inventory is low but will need to be controlled till BS-VI transition in Apr'20. Pre-buying if any may take place in diesel vehicles.

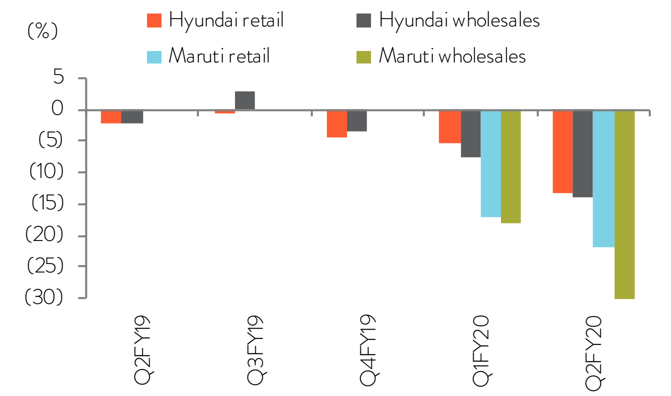
We expect industry-wide domestic PV volumes to decline by 14% YoY in FY20. Thereafter, we anticipate a cyclical demand recovery with a 9% CAGR over FY20-FY22 based on factors such as a soft base, moderate price hike for BS-VI changeover in petrol vehicles (~65-70% of industry volumes), pickup in replacement demand and increased new launch activity.

FIG 24 – WHOLESALE PV VOLUME TREND



Source: SIAM, ET Autolytics, BOBCAPS Research

FIG 25 – RETAIL GROWTH FOR MSIL AND HYUNDAI



Source: Hyundai Motors PPT, Company, BOBCAPS Research

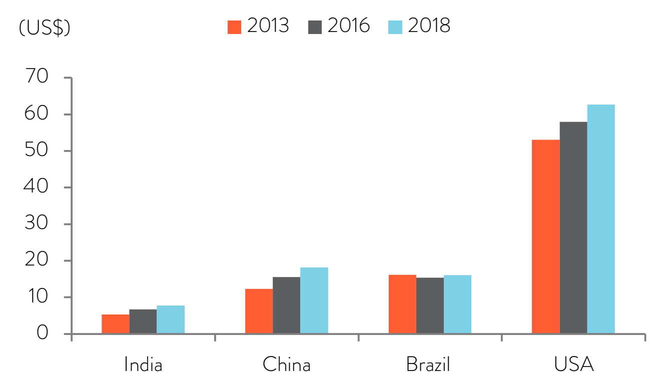
Structural factors supportive

PV penetration in India stands at ~23 vehicles per 1,000 people (as of 2018) which is fairly low compared to other developing nations. In contrast, China (174 vehicles) and Brazil (165 vehicles) which have ~2x the GDP per capita of India on USD purchasing power parity basis clock significantly higher penetration rates.

Since a generic per capita analysis typically yields favourable results for most consumer categories in India, we look at a more distilled addressable market. Based on a BCG report published in Feb'19, India has 72mn households with income of Rs 500,000 and above in 2018. Assuming 75% of these form the addressable market with average potential of 1.4x car ownership per household, we arrive at a target market size of 76mn units. Based on our estimate of current vehicle population or parc size (26mn assuming a 12-year replacement cycle), current penetration is in the order of 34%.

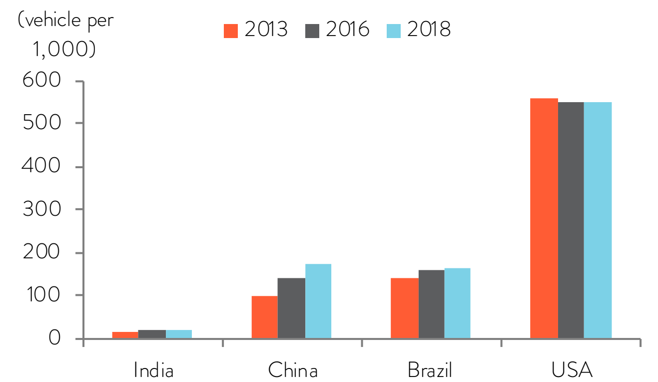
Shared mobility and vehicle leasing models may have some impact on second car purchase in a household, but current penetration levels provide significant headroom for motorisation as affordability improves.

FIG 26 – GDP PER CAPITA (USD PPP BASIS)



Source: World Bank, Bloomberg, BOBCAPS Research

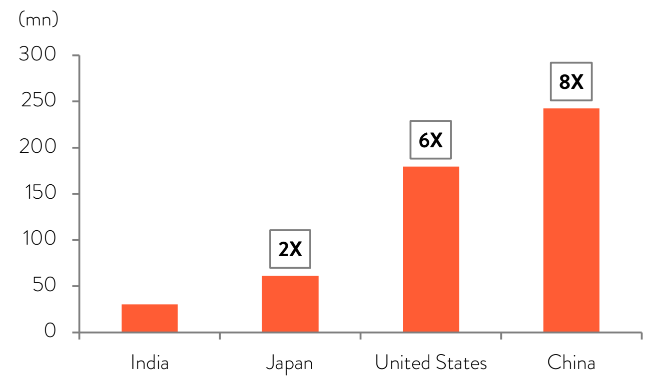
FIG 27 – VEHICLE PENETRATION (PER 1,000 PEOPLE)



Source: World Bank, Bloomberg, BOBCAPS Research

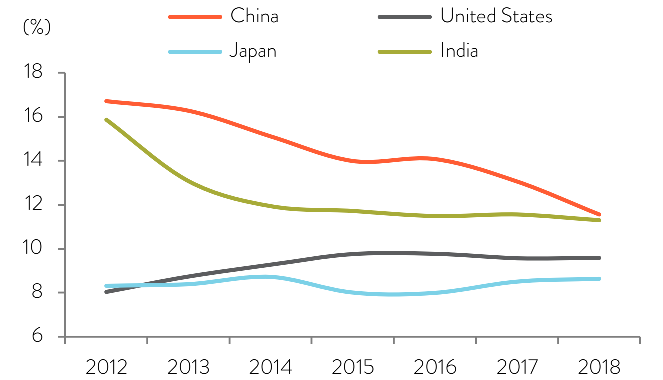
A time series and cross-country comparison of annual PV sales as a percentage of PV parc reveals two key points – (1) India's current ratio of PV sales to parc is at its lowest level in the past 10 years (at 9%), and (2) this ratio is not too different from more mature PV markets that have 2-8x the vehicle parc as compared to India suggesting that replacement demand should see a pick-up.

FIG 28 – VEHICLE PARC ESTIMATES



Source: World Bank, Bloomberg, BOBCAPS Research | Note: Figure in box refers to parc size relative to India

FIG 29 – ANNUAL PV SALES AS % OF VEHICLE PARC



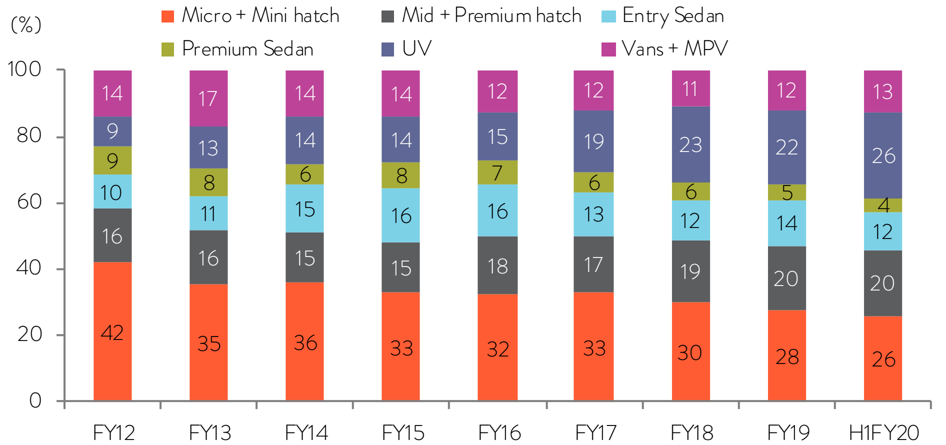
Source: World Bank, Bloomberg, BOBCAPS Research | Note: Assuming replacement cycle of 12 years

PV segment mix – notable change in customer preferences

On slicing the PV industry into subsegments based on price point and vehicle body style, we note significant shifts over the past 7-8 years in line with evolving consumer tastes and new product offerings.

- **Micro & Mini hatchback** segment mix has declined from 42% of domestic PV volumes in FY12 to 26% in H1FY20. This trend is interesting in the context of MSIL's management view that the first-time buyer ratio remains largely constant in the 45-47% range.
- **Mid & Premium hatchback** mix has risen from 16% in FY12 to 20% in H1FY20, indicating that first-time buyers are uptrading from entry-level hatchbacks with higher financing support.
- **Entry-level sedans** initially rose from 10% in FY12 to 16% in FY16 as several OEMs introduced sub 4-metre sedans to avail of lower excise duty. Rapid fleet growth by cab aggregators also fuelled demand. Subsequent moderation in demand from Ola/Uber and the launch of sub-compact UVs has led to segment share declining to 12%in H1FY20.
- India, similar to several other key major automotive markets, is witnessing a growing preference for **UVs**. The introduction of multiple options in compact UVs at sub-Rs 1mn-1.2mn price points has spurred a significant shift, with the volume mix rising from 9% in FY12 to 26% in H1FY20.

FIG 30 – PV SEGMENT-WISE TRENDS



Source: SIAM, ET Autolytics, BOBCAPS Research

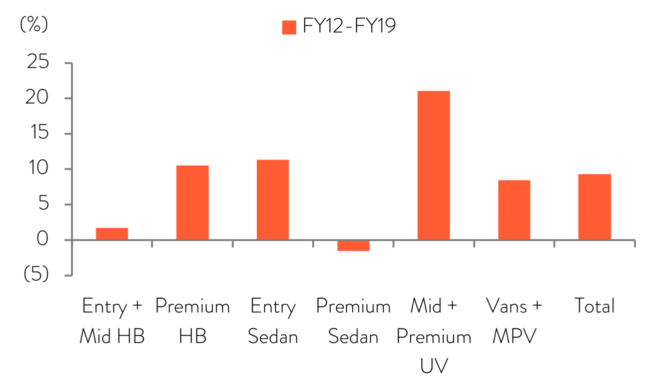
Premiumisation trend to continue

Our bottom-up analysis of the PV industry shows a notable premiumisation trend. As against a 4% CAGR in PV volumes over FY12-FY19, value growth stood at 9% CAGR. On average, industry-level ASP ex-showroom grew from ~Rs 560k in FY12 to ~Rs 790k in FY19, a 5% CAGR.

We split the 5% CAGR in average price point into a 3% CAGR caused by price hikes and a 2% CAGR from the mix impact. The latter is somewhat understated as the higher-priced diesel mix has declined from 48% of PV volumes in FY12 to 36% in FY19.

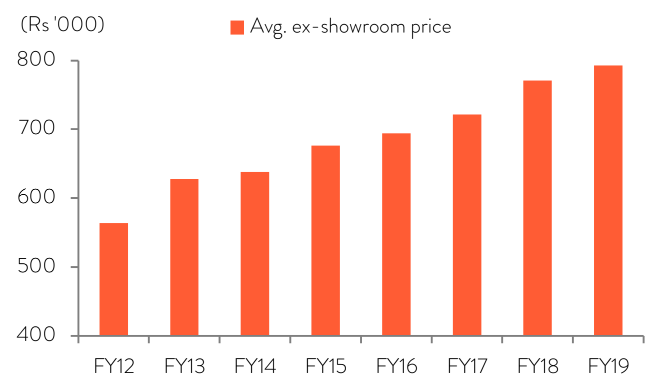
In terms of value growth across segments over FY12-FY19, UVs increased at a 21% CAGR. Entry-level sedans and premium hatchbacks grew at 11% and 10% per annum respectively over this period. Entry- and mid-segment hatchback value rose by a modest 2% CAGR while premium sedans saw a 2% decline per annum over the past seven years.

FIG 31 – SEGMENTAL VALUE CAGR (FY12-FY19)



Source: SIAM, ET Autolytics, Media reports, BOBCAPS Research

FIG 32 – PV INDUSTRY AVERAGE SELLING PRICE



Source: SIAM, ET Autolytics, Media reports, BOBCAPS Research

Competitive intensity to rise but largely restricted to UVs

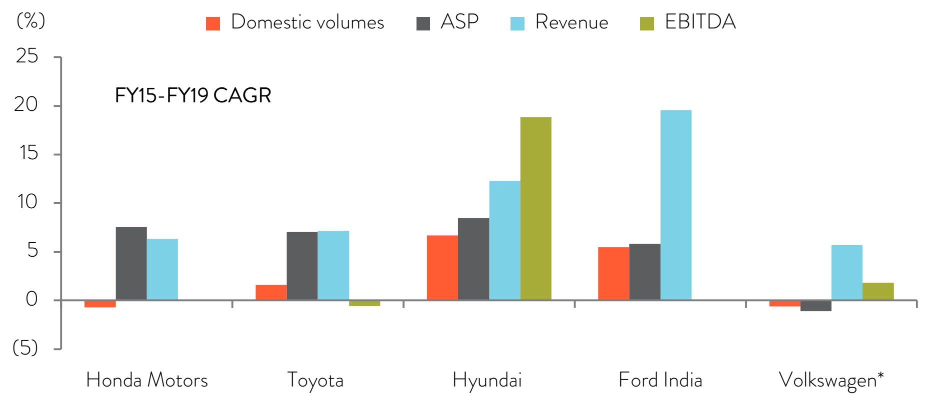
Rough ride for global OEMs in India; course correction underway

India is one of the few PV markets globally to have a sustained level of high brand concentration over several years. A total of 17 OEMs operate in the Indian PV market with 98 model offerings currently. The top 10 models by volumes have consistently accounted for 50%+ share of domestic PVs for each of the past 8-9 years.

Most unlisted global PV players continue to clock weak operating profit growth, with the exception of Hyundai. Over the past decade, these OEMs have focused on entry/mid-range hatchbacks and compact sedans, but failed to make significant inroads. Many of them have scaled back their India growth plans and are operating as niche players. Some are modifying their future strategies, especially in light of the higher investment needed to comply with tighter regulatory standards.

- **Toyota** plans to discontinue 'Etios' and 'Liva' – in effect its existing lower priced segments – given the high cost involved in migrating them to BS-VI. Toyota will look to fill product gaps through its collaboration with MSIL.
- **Ford** has entered into a joint venture with MM with a view to reduce development cost by working on common product platforms and deriving synergies from joint operations.
- **Volkswagen (VW)** under its India 2.0 project has consolidated its group entities with the merger of VW, Skoda, Audi, Porsche and Lamborghini into a single entity. The combined entity aims to leverage on common platforms and products to serve all market segments.
- **Hyundai** will look to further expand its India market presence via its sister concern and recent entrant KIA Motors. Besides targeting a higher combined market share, back-end synergies will also improve competitiveness.

FIG 33 – PERFORMANCE OF GLOBAL OEMs IN INDIA (FY15-FY19 CAGR)

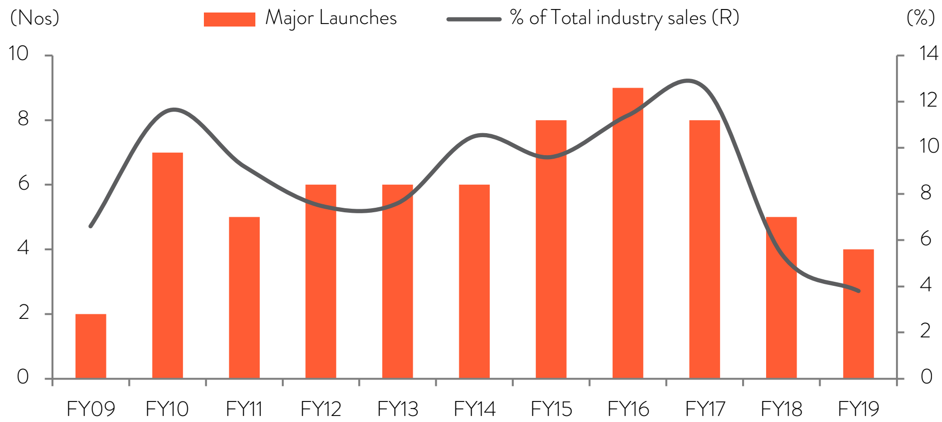


Source: BOBCAPS Research, Company, Capitaline | *FY15-FY18 for Volkswagen

Entry of new players and higher launch intensity post BS-VI transition

New launches accounted for 10-12% of PV volumes between FY10 and FY17. The past two years saw a moderation in launch activity as companies focused on meeting new regulatory norms such as revised safety standards and the more complex BS-VI emission norms.

FIG 34 – CONTRIBUTION OF NEW LAUNCHES



Source: BOBCAPS Research | *Major Launches comprise PV models where annual sales were above 10k units

We expect new launch activity to pick up post BS-VI transition in Apr'20, which will serve to boost overall PV volume growth but also result in higher competition. As per media reports, several new launches are expected over the next 12-18 months, most in the UV segment.

With a steady increase in average vehicle price points and shift to tighter emission standards, a new set of foreign automakers plan to enter India as their product portfolios are now better aligned to the Indian market. As per media reports, Chinese automakers – Great Wall and Changan Motors – are close to investing in India and setting up a manufacturing footprint. Both players have a large SUV portfolio. However, the impact of these launches, if any, will be a few years away.

Higher competitive intensity in UVs can result in continued pressure on MM's market share in its urban UV portfolio. From MSIL's perspective, the impact of competition will be limited as its volume mix from UVs is less than 25%. However, the company's planned exit from diesel vehicles (~22% of volumes estimated in Apr-Oct'20) may have a near-term market share impact if customers continue to prefer diesel. We think MSIL can re-enter the diesel UV market in a short span if required.

FIG 35 – NEW LAUNCHES IN PVs SKEWED TOWARDS UV SEGMENT

OEM	Timeline	Entry+ mid HB	Premium HB	Entry Sedan	Premium Sedan	Mid+ Premium UV	Vans+ MPV	Electric
Maruti	Q4FY20		XL5				Ertiga Sport	
	Q2FY21					Grand Vitara		Wagon-R
	Q4FY21					Jimmy		
Hyundai	Q1FY21				Verna	Santa Fe, Tuscon		
	Q2FY21			Aura	Sonata	Creta		
	Q3FY21		Elite i20	Xcent	Ioniq			
Mahindra	Q1FY21					Thar 2020		E KUV100
	Q2FY21					XUV Aero		
	Q3FY21					S204,		
	Q4FY21					Bolero, XUV 500		XUV300
Tata	Q4FY20		Altroz					
	Q1FY21					Gravitas		Nexon
	Q2FY21							Tiago
	Q3FY21					H2X		
KIA	Q4FY20					Sportage		
	Q1FY21						Carnival	
	Q2FY21				Rio			
	Q2FY21					QYI		
	Q3FY21		Ceed, Soul					
MG	Q4FY20							ZS
	Q1FY21					Bajoun		
	Q2FY21					Maxus D90, ERX5		
	Q3FY21					D90		
	Q4FY21					RX5		
Renault	Q1FY21			Arkana				
	Q4FY21							Kwid
VW	Q1FY21				Virtus, A0 SUV	T-cross		
	Q2FY21				Jetta			
	Q4FY21					T-roc		
Honda	Q2FY21		Jazz	City	Vezel			
	Q4FY21		Brio			HR-V		
Toyota	Q4FY20				Corolla			
	Q1FY21				C-HR			
Skoda	Q4FY20				Octavia			
	Q1FY21				Superb	Karoq		
	Q3FY21			Kamiq	Scala	Vision X		

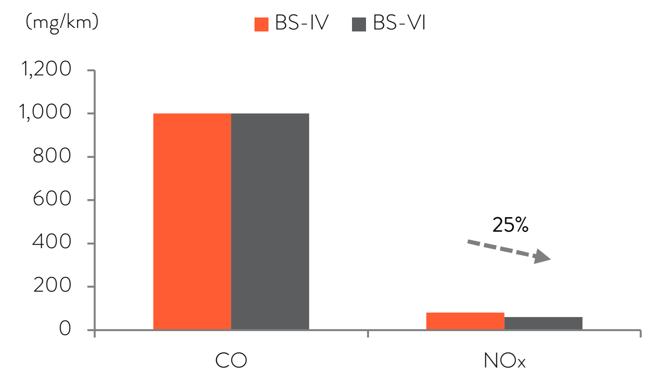
Source: Media reports | Note: HB = Hatchback   Model Upgrades   Fresh launches

Stringent regulatory norms – BS-VI & CAFE – pose varied challenges

BS-VI – stringent norms for diesel vehicles

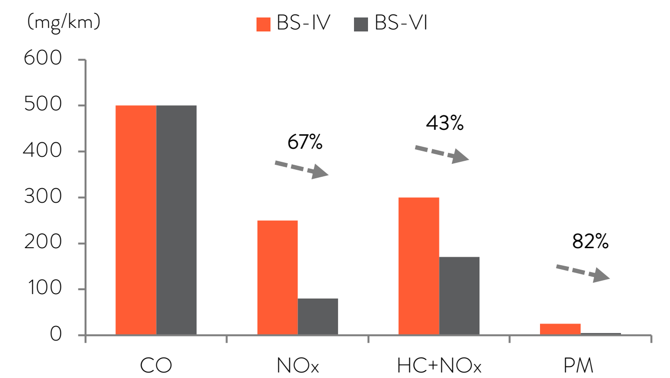
Under BS-VI norms due to be implemented from Apr'20, diesel vehicles in particular will have to adhere to significantly tighter emission limits. Major pollutants including hydrocarbons/nitrogen oxides (HC+NOx) and particulate matter (PM) levels are required to be brought down by 43% and 82% respectively for diesel vehicles as compared to current BS-IV norms.

FIG 36 – BS-VI EMISSION NORMS FOR PETROL PVs



Source: ARAI, BOBCAPS Research

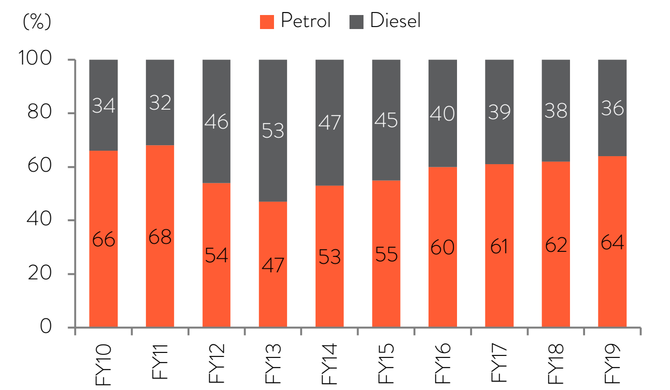
FIG 37 – BS-VI EMISSION NORMS FOR DIESEL PVs



Source: ARAI, BOBCAPS Research

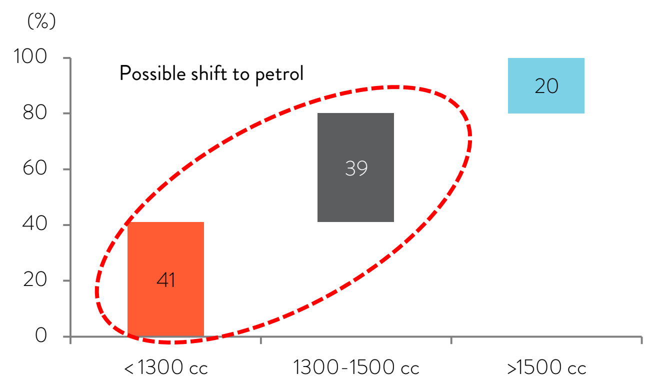
For smaller diesel engines (<2L), exhaust treatment through a lean NOx trap (LNT) is considered an appropriate solution. The expected price increase to make diesel models compliant is in the order of 10-15%, while petrol models will face a lower increase of 2-4% given minor changes to engine and exhaust systems. This will further widen the price gap between diesel and petrol vehicles. On pre-BS-VI price differential, we estimate breakeven travel distance for diesel variants at 15-16k km/annum. With a widening of the price gap, it will require vehicle running of 22-24k km/annum to achieve breakeven for the higher upfront cost.

FIG 38 – PV INDUSTRY VOLUME SPLIT BY FUEL TYPE



Source: Industry, BOBCAPS Research

FIG 39 – DIESEL VEHICLE MIX BY ENGINE SIZE



Source: Industry, BOBCAPS Research

CAFE norms – adoption of alternate powertrains required

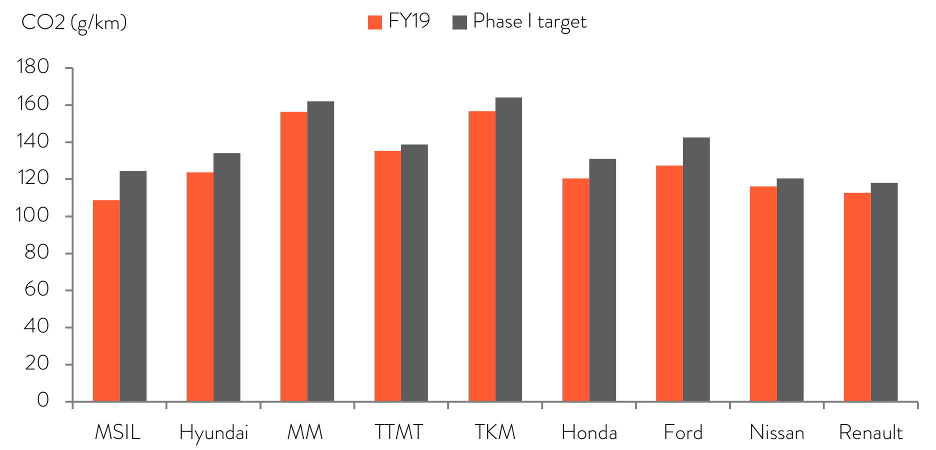
From Apr'22, phase II of CAFE (corporate average fuel economy) norms will come into effect in India. While the standards are set in in petrol-equivalent litres per 100 kilometres, compliance measurement is based on carbon dioxide (CO2) emissions per kilometre (g/km). Over phase I from FY18-FY22, CO2 emission must be less than 130g/km based on average fleet weight of 1,037kg – post FY22 this will be tightened to 113g/km based on average fleet weight of 1,145kg.

Most PV makers should comfortably meet CO_2 norms under the phase I CAFE target. Keeping kerb weight constant, the required reduction to meet phase II standards appears modest at 1.5-2% per annum. However, BS-VI transition will see the diesel mix declining and hence effectively widen the gap for meeting the phase II target on two counts – (1) diesel models typically emit 10-15% lower CO_2 than similar sized petrol models, (2) a lower mix of diesel models will result in a decline in average fleet weight and hence further tighten the effective CO_2 target.

CAFE norms provide credits for adoption of battery electric vehicles (BEV), plug-in hybrids (PHEV) and hybrid electric vehicles (HEV). Adoption of BEVs and PHEVs is likely to be slow over the next 2-3 years given affordability and infrastructure challenges.

We think CAFE norms will prompt the gradual introduction of HEVs, though the adoption rate will largely depend on price points. CNG vehicles also emit relatively lower CO_2 compared to petrol, but adoption thus far has been constrained by low CNG network coverage and inferior performance attributes.

FIG 40 – CORPORATE AVERAGE CO2 PERFORMANCE FOR MAJOR PV OEMs



Source: SIAM, BOBCAPS Research

Structural concerns for PVs unwarranted

The PV sales slowdown over the past 12 months is perceived as being partly induced by structural factors, such as: (1) the pre-owned car market drawing demand away from new car purchases, especially in entry-level segments, and (2) growth in shared mobility leading to customers shunning ownership.

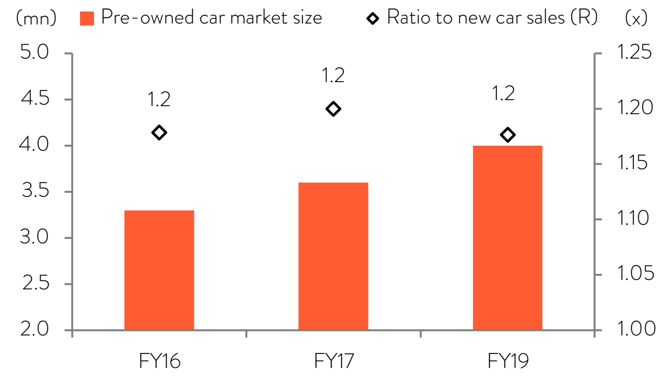
In our view, these factors could have some marginal impact on second-car purchase at best. Low penetration levels and car ownership aspirations in India are compelling triggers for long-term growth. We discuss these factors in detail below.

Pre-owned car market unlikely making a dent in new car sales

India's pre-owned vehicle market is quite sizeable at ~1.2x of new car sales, as per an IndianBlueBook (IBB) study. This is against the 0.4x ratio of pre-owned to new car sales in China and 2.2x ratio in the US (as of 2015). The Indian market for used vehicles is steadily shifting towards the organised segment, with several players entering the fray – business share of organised dealers/portals has risen from 10% in FY11 to 18% in FY19. Transparent pricing, better financing availability and ease of transactions are driving this shift.

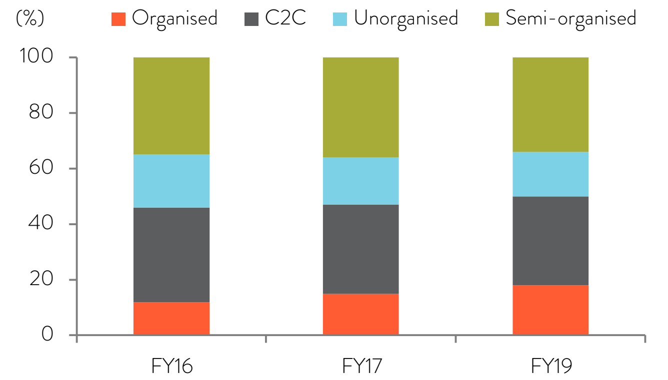
The IBB study indicates that 85% of pre-owned car buyers were users of two-wheelers. These customers are essentially looking at used vehicles as a stepping stone to a new car purchase. The average price of cars sold in the pre-owned market in FY19 was Rs 310,000, implying that the customer set considering a used car would unlikely overlap meaningfully with a potential new car buyer.

FIG 41 – PRE-OWNED VEHICLE SALES



Source: IndianBlueBook, BOBCAPS Research

FIG 42 – CHANNEL MIX FOR PRE-OWNED CAR SALES



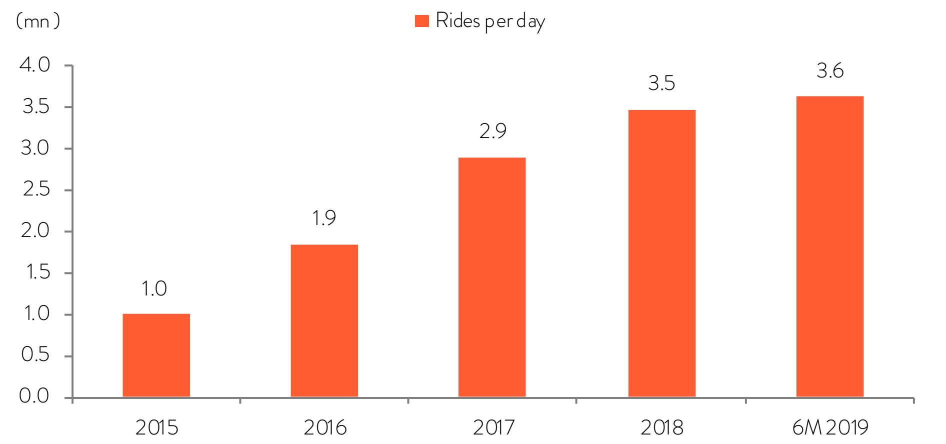
Source: IndianBlueBook, BOBCAPS Research

Shared mobility – business model still evolving

The increasing popularity of cab aggregators/ride-hailing services such as Uber and Ola in India is being cited as one of the risks to PV demand. Most discussions on this front are anecdotal given the recent emergence of this trend, not only in India but also globally.

Based on media reports, aggregate growth in rides per day for Uber and Ola combined has moderated in the first six months of 2019. Due to profit pressure on cab aggregators, their driver partners are netting in lower incentives which has slowed the pace of fleet addition. Customers on the other hand are facing increased fares and wait times, taking some of the sheen off shared mobility.

FIG 43 – RIDES PER DAY TREND FOR CAB AGGREGATORS

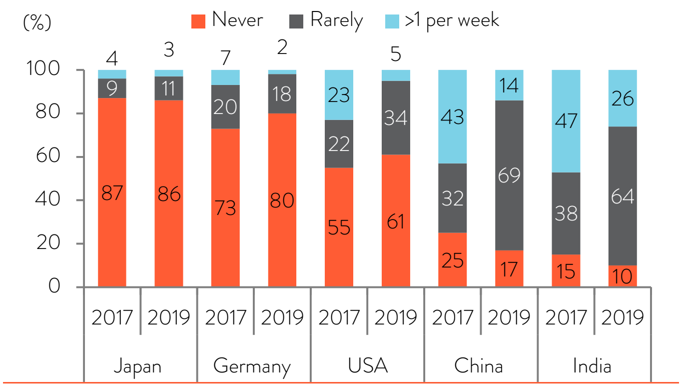


Source: Media reports, BOBCAPS Research

A survey carried out by Deloitte in 2019 on various aspects of shared mobility including ride-hailing had some interesting takeaways. Usage of ride-hailing services at least once by consumers surveyed is the highest in India compared to most major countries. However, between 2017 and 2019, the frequency of usage has declined. This coincides with the fact that fares/wait times have risen substantially.

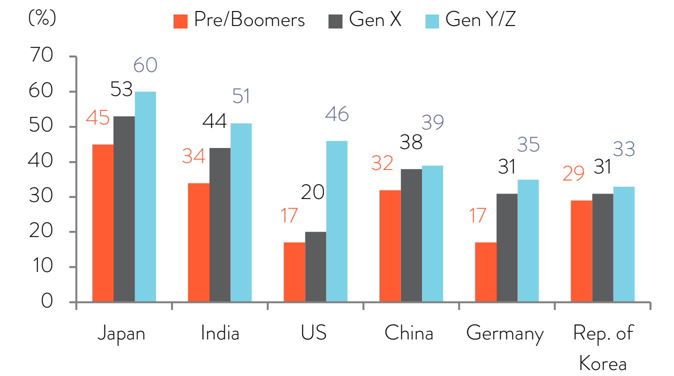
We believe that ride-hailing models are still evolving and unless vehicle operating cost declines materially (possibly through EVs), these models are unlikely to substitute the need for vehicle ownership in a meaningful manner.

FIG 44 – RIDE-HAILING USAGE TREND



Source: Deloitte Global Automotive Consumer Study, BOBCAPS Research

FIG 45 – RIDE-HAIL USERS QUESTIONING NEED TO OWN A VEHICLE GOING FORWARD



Source: Deloitte Global Automotive Consumer Study, BOBCAPS Research
Note: Pre/Boomers: Born before 1965; Gen X: Born 1965–1976; Gen Y/Z: Born after 1976 (sample excludes consumers under 16 years of age)

ICE vs. EV – cost and infrastructure hurdles

Electric PV adoption is currently at a very nascent stage in India. The EV ecosystem is gradually developing, including the formulation and implementation of policies and measures that can support adoption of e-mobility solutions. Currently, however, there is limited domestic manufacturing of these vehicles and related components.

The Indian government is keen to drive faster car electrification in India. According to policy thinktank NITI Aayog, if FAME-II and other measures taken by the government are successful, India should see high penetration of EVs by 2030.

Government measures to promote EVs

- Tariffs on imported EV parts were reduced in Jan'19 to boost assembly in India.
- The FAME-II scheme to promote use of EVs was rolled out on 1 Apr 2019 with an outlay of Rs 100bn for three years.
- In the recent union budget, the government provided a deduction of up to Rs 150,000 for interest paid on loans taken for the purchase of EVs up to 31 Mar 2023.
- GST rate on these vehicles was reduced from 12% to 5% in Jul'19.

Our total cost of ownership (TCO) analysis between EV and ICE models over a five-year period indicates a substantial gap in ownership cost of ~65% vs. petrol and ~52% vs. diesel ICE models for the individual car buyer category, given usage patterns. EV economics appear more viable for commercial usage given higher vehicle running and subsidy eligibility.

The key determinant of EV pricing is battery pack cost which is estimated to have declined to US$ 156/kWh in 2019, as per Bloomberg NEF (BNEF). Typically, battery pack cost accounts for 35-40% of an EV. As per BNEF, prices are likely to fall below US$ 100/kWh by 2023 on the back of increased scale and advancements with respect to higher density cathodes.

Besides battery pack cost, other enabling factors need to fall into place for adoption to gather pace – for instance, availability of relevant vehicle models for India within price points that meet affordability criteria for mass adoption. Battery performance and time taken for charging in Indian weather conditions also need to be determined.

Adequate charging infrastructure is a base requirement for EV penetration to rise meaningfully. The government recently announced the following facilitatory measures – (1) set up of public charging stations will be a de-licensed activity, and (2) charging stations can get electricity from any generation company through open access.

FIG 46 – TATA TIGOR EV VS. ICE ENGINE COMPARISON (PRIVATE VEHICLE)

Particulars (Rs)	Tata Tigor – EV	Tata Tigor – Diesel	Tata Tigor – Petrol
On-road vehicle cost (Rs)	1,436,803	797,049	667,599
Cost per unit of energy (Rs)	10	67	73
Fuel efficiency (km/l)	170km / full charge*	18	15
Energy cost per km (Rs)	1.3	3.7	4.9
Avg km run (per year)	9,000	9,000	9,000
Energy cost per year (Rs)	11,356	33,500	43,800
Energy cost (5yrs) (Rs)	56,778	167,500	219,000
Maintenance (5yrs) (Rs)	18,000	27,000	27,000
Total ownership cost	**1,511,581**	**991,549**	**915,169**

Source: BOBCAPS Research, Media reports | *Assuming 80% of company claimed range

FIG 47 – TATA TIGOR EV VS. ICE ENGINE COMPARISON (FLEET OWNER)

Particulars	Tata Tigor – EV	Tata Tigor – Diesel
On-road vehicle cost (Rs)	1,219,803	797,049
Cost per unit of energy (Rs)	10	67
Fuel efficiency (km/l)	170km / full charge*	18
Energy cost per km (Rs)	1.3	3.7
Avg km run (per year)	50,000	50,000
Energy cost per year (Rs)	63,087	186,111
Energy cost (5yrs) (Rs)	315,434	930,556
Maintenance (5yrs) (Rs)	100,000	150,000
Total ownership cost	**1,635,237**	**1,841,556**

Source: BOBCAPS Research, Media reports | *Assuming 80% of company claimed range

For further research coverage on global EV trends, read our Oct'19 Oil & Gas report: **GRM surge on IMO may sustain for long**.

Two-wheelers: Stay selective

Modest outlook

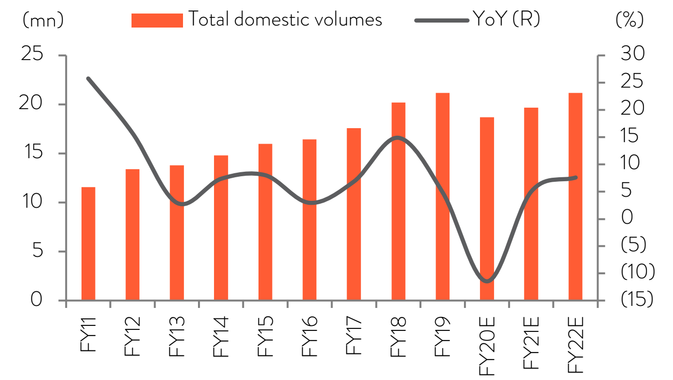
In addition to slowing consumption growth since mid-2018, the two-wheeler (2W) segment has seen sharp cost increases due to changes in insurance norms effective from Sep'18 and tighter safety norms from Apr'19. The cumulative cost hike faced by customers has been in the order of 8-12%, causing 2W volumes to plummet in the last 12 months.

During the recent festive season (in October), 2W retail sales did improve given the bunching-up of festive days. As per the Federation of Automobile Dealers Associations of India (FADA), system inventory for 2Ws has declined from 60-65 days prior to the festive season to 35-40 days in Nov'19. Given the BS-VI changeover from Apr'20, the transition phase over the next few months would see OEMs drawing down BS-IV inventory and gradually building stock for BS-VI vehicles. Wholesale volume growth during this phase is likely to remain subdued.

Above-average monsoons and lean inventory levels offer hope of volume recovery next year onwards. However, yet another large cost hike linked to BS-VI compliance and high levels of competitive intensity drive our view of being selective in this space.

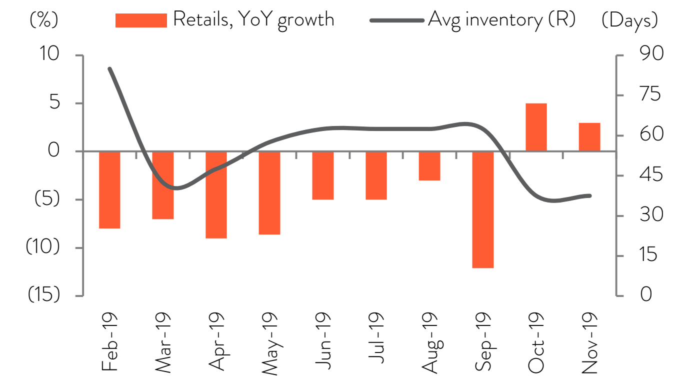
After an estimated 11% YoY decline in volumes in FY20, we expect gradual recovery and estimate a 6% CAGR in domestic 2W volumes over FY20-FY22. That said, we estimate 2W penetration levels will rise to ~73% on a per household basis over the next five years – a structural concern for growth.

FIG 48 – DOMESTIC 2W SALES VOLUME GROWTH



Source: SIAM, ET Autolytics, BOBCAPS Research

FIG 49 – 2W RETAIL GROWTH AND INVENTORY DAYS



Source: FADA, VAHAAN, BOBCAPS Research

Rising 2W penetration – a mid-to-long-term fundamental concern

Public transportation infrastructure has been unable to keep up with the mobility needs of India's vast population. 2Ws have served as an affordable mobility solution for long, but over the next 5-10 years the risk of demand saturation looks imminent.

Assuming a 12-year replacement cycle, we estimate India's 2W parc size at ~164mn units in 2019. We use an income-based household split and apply a multiplier of 1.4x (assuming 30-35% of households would own more than one 2W) to arrive at the addressable market. Current penetration stands at ~58% and with an estimated 5% CAGR in domestic 2W volumes over the next five years, penetration levels will rise to 73% in 2025.

FIG 50 – 2W HOUSEHOLD PENETRATION

Particulars (mn)	% addressable HH	2011	2015	2018	2019	2025E
HH split – Based on income						
Next Billion: <Rs 150,000/pa	30	27.3	25.2	22.8	21.7	16.2
Strugglers: Rs 150,000-300,000/pa	100	102.0	86.6	69.0	67.3	58.0
Aspirers: Rs 300,000-500,000/pa	100	31.0	48.3	58.0	60.6	79.0
Mid Affluent: Rs 500,000-10,00,000/pa	90	10.8	25.3	39.6	41.5	54.9
Affluent: Rs 1mn-2mn/pa	50	1.0	3.8	10.0	10.9	18.0
Elite and Above: Rs 2mn/pa	10	0.2	0.5	0.8	0.9	1.6
Addressable HH (mn)		**172**	**190**	**200**	**203**	**228**
Target 2W HH 1.4x ownership	**1.4x**	**241**	**266**	**280**	**284**	**319**
2W vehicle parc (based on 12Y replacement)		74	115	151	164	234
2W penetration level (12Y) (%)		**31**	**43**	**54**	**58**	**73**
2W vehicle parc (based on 10Y replacement)		71	109	141	155	208
2W penetration level (10Y) (%)		**30**	**41**	**50**	**54**	**65**

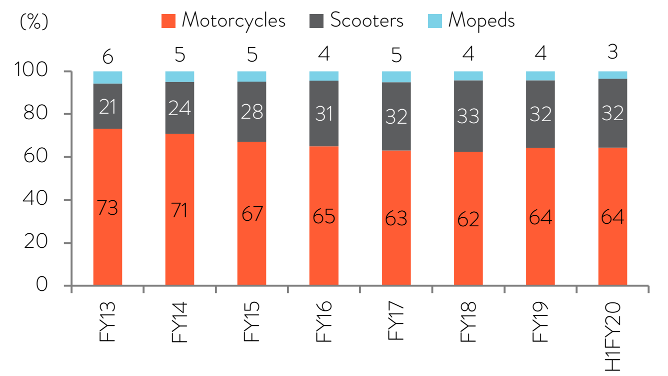
Source: BCG Report, SIAM, ET Autolytics, BOBCAPS Research

Cross-country comparisons with sizeable 2W markets broadly align with this argument. Indonesia (third largest market for 2Ws) saw volumes peaking in 2011 at 8mn units, at which time penetration stood at 62% on a per household basis. Thailand saw volumes peaking around 2013 with a penetration rate of 76%.

Segmental mix – scooters mix stabilising; motorcycles turning into barbell market

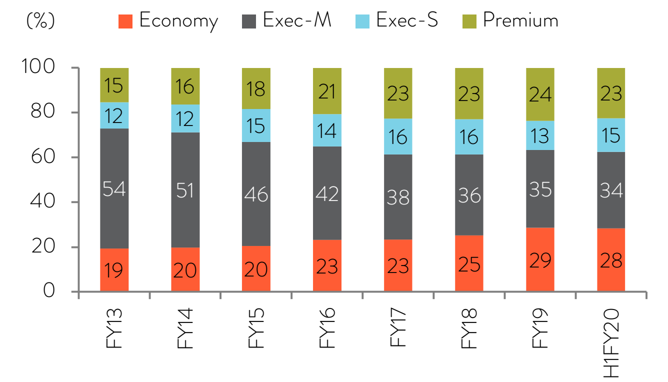
Within domestic 2W segments, scooter volumes have risen rapidly over the past decade at a 19% CAGR. The mix, however, appears to have stabilised at ~32% over the past three years – potentially in part due to urban growth slowing well before rural markets. Notably, the scooter mix is shifting towards the 125cc segment, where volume share has doubled from 12% in 2018 to 25% at present, aided by 7-8 new launches.

FIG 51 – DOMESTIC 2W MIX



Source: SIAM, ET Autolytics, BOBCAPS Research

FIG 52 – MOTORCYCLE SUBSEGMENTS



Source: SIAM, ET Autolytics, BOBCAPS Research | Note: Exec-M = Mileage; Exec-S = Sports

Domestic motorcycle volumes segmented based on engine size and price points is reflecting a barbell market with the share of economy and premium bikes expanding at a steady pace.

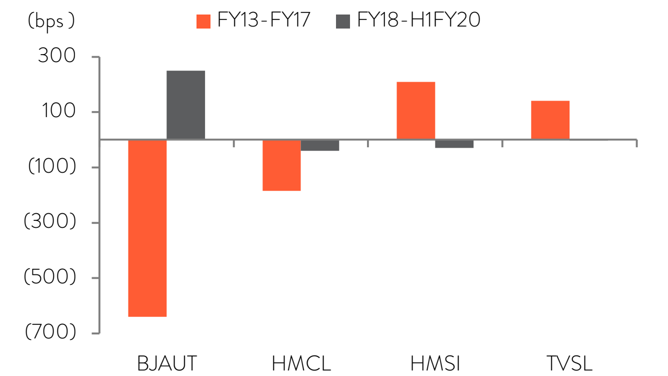
The economy and premium segments largely comprise 100cc and >150cc engine sizes respectively. We split the executive segment into mileage and sports based on positioning and pricing.

- Weak income growth and rising vehicle ownership cost are likely fuelling downtrading towards the **economy** segment by potential **executive-mileage** customers.
- The **executive-sports** segment which was considered a logical stepping stone for consumers looking to upgrade has been more or less stagnant in the overall mix. Customers seemingly have not found a strong value proposition in paying more for moderately higher power/torque and a few additional features.
- As with most consumer businesses in India, 2Ws have also witnessed **premiumisation**. A significant contributing factor is Royal Enfield's (RE) solid volume growth, but even excluding RE, the share of premium motorcycles has risen by ~300bps over the past five years.

Competitive intensity to remain elevated

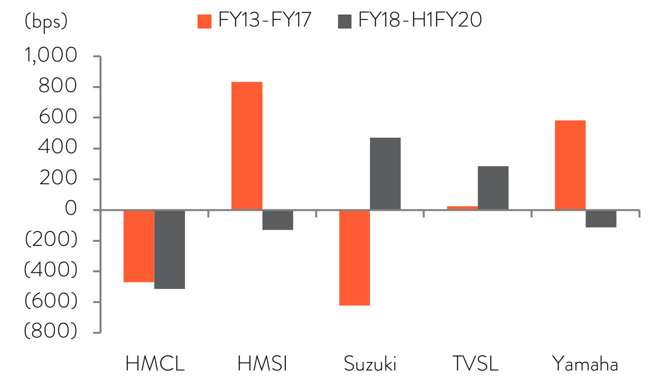
All large 2W players generate high ROCE as the business has low capital intensity with high asset turns. As a result, any of these players could choose to sacrifice margins in a quest for market share gains, as evidenced by BJAUT's aggressive pricing strategy since FY18. Having said this, the success rate of new launches in the 2W segment has been low given brand stickiness amongst customers. But in recent years, brand concentration measured by market share of the top 5 selling models is showing a steady decline. In other words, customers are increasingly amenable to moving away from tried and tested brands/models.

FIG 53 – MOTORCYCLE MARKET SHARE CHANGES



Source: SIAM, ET Autolytics, BOBCAPS Research

FIG 54 – SCOOTER MARKET SHARE CHANGES

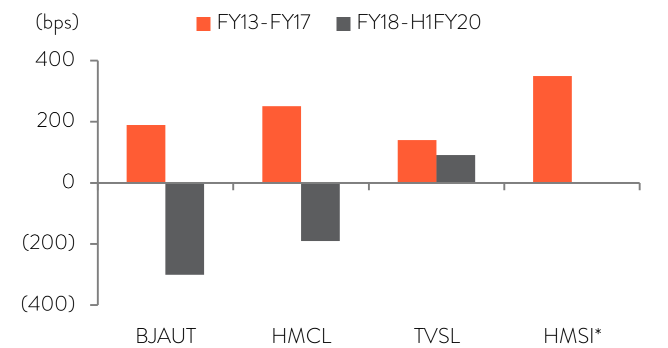


Source: SIAM, ET Autolytics, BOBCAPS Research

In our view, the domestic 2W market is likely to see elevated competitive intensity based on multiple counts:

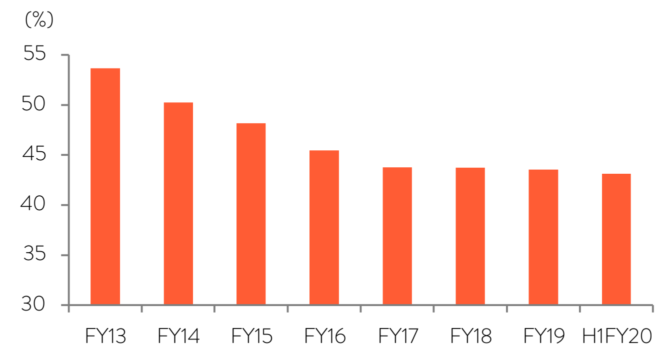
- After a sharp fall in motorcycle market share for the past 7-8 years, **BJAUT** altered its strategy and introduced lower priced models/variants. While the company did gain ~400bps share over the past six months, this has come at the cost of margins. Given the company's market share ambitions, the pricing environment is unlikely to improve.
- Changeover to BS-VI can create challenges as 2W makers have varied exposure to the domestic market and within that to price-sensitive segments. **BJAUT** and **TVSL** have relatively lesser exposure to the Indian market and entry segment bikes and hence may look at aggressive pricing strategies or launching alternate low-cost technologies to meet regulatory norms and gain a competitive edge.
- Given the strong volume growth and scooterisation trends, **HMSI** has gained sizeable market share over the past 5-7 years. However, if the scooter mix stabilises around current levels, the company may increase focus on the motorcycle segment for volumes and incremental market share.

FIG 55 – MARGIN CHANGES



Source: Company, Capitaline, BOBCAPS Research | *HMSI data till FY19

FIG 56 – MARKET SHARE OF TOP 5 MODELS



Source: SIAM, Media reports, BOBCAPS Research

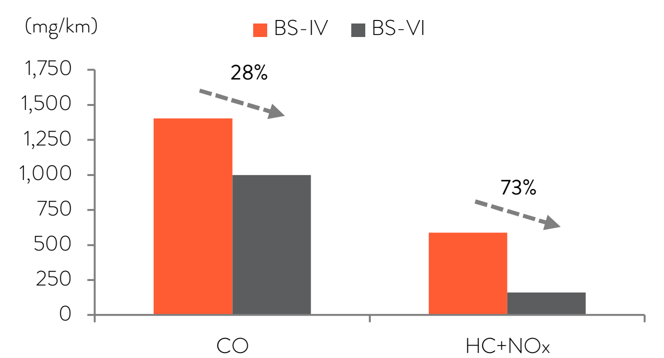
BS-VI transition – a big cost leap

Transition to BS-VI requires major upgrades to existing 2Ws. With the sharp reduction required in emission levels (~28% for CO, 73% for HC+NOx) and introduction of PM limits, 2W players would need to shift from carburettor-based to electronic fuel-injection (EFI) systems. In addition, exhaust systems will need to be modified using a three-way catalytic converter system and oxygen sensor. All 2W players are well underway with this transition and are expected to roll out their upgraded portfolios by Jan-Feb'20.

Keihin FIE (subsidiary of Keihin Corp) is likely to be one of the key suppliers for FI systems to Indian 2W OEMs. The company has also been the largest supplier of 2W carburettors in India with sales of 16.3mn units in FY19. Keihin has put in place production capacity for 10mn FI units across its five manufacturing facilities and expects to reach utilisation levels of 800k-900k units/month by Apr-May'20.

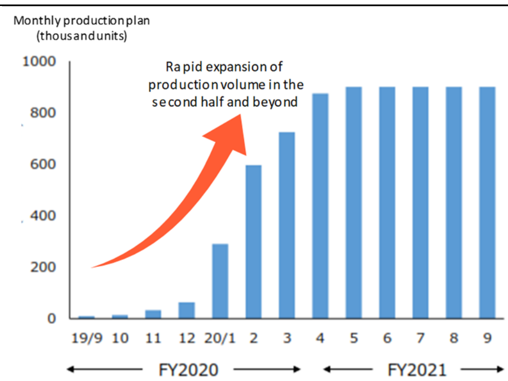
According to the company's filings, the per unit price of a carburettor in FY19 was ~Rs 930, against which we believe FI systems are likely to be priced 3-3.5x higher. The resultant increase in 2W cost clouds prospects of a sharp cyclical recovery and can also potentially lead to market share changes based on the pricing strategies/technology choices of industry participants.

FIG 57 – CHANGES IN EMISSIONS POST BS-VI



Source: ARAI, BOBCAPS Research

FIG 58 – KEIHIN FI PRODUCTION RAMP-UP

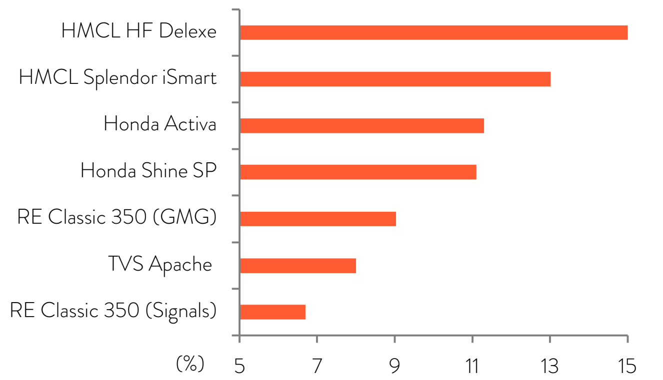


Source: Keihin Investor PPT

A few players have already launched select BS-VI variants with ex-showroom price increases ranging from Rs 7k to Rs 14k, translating to a 6-15% hike across segments. As per our industry checks, a few players are looking at low-cost alternatives such as electronic carburettors (e-carb) for transitioning to BS-VI. E-carb cost is estimated to be 30-40% lower than EFI, but given their limitations they may find a place only in entry-level segments.

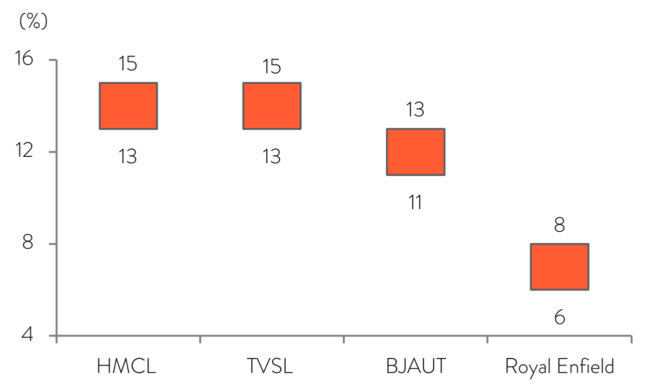
We note that the estimated weighted-average price hike on account of BS-VI migration is largely similar for most mass-market players, but HMCL has the highest exposure to price-sensitive customers and hence is at biggest risk of demand erosion.

FIG 59 – BS-VI PRICE CHANGE (EX-SHOWROOM)



Source: Company, Media reports, BOBCAPS Research

FIG 60 – ESTIMATED WEIGHTED AVERAGE HIKE ON BS-VI TRANSITION FOR 2W PLAYERS



Source: Media reports, Company, BOBCAPS Research | Note: Impact based on ex-showroom prices

Electric 2Ws – favourable environment emerging

Electric 2Ws have scope for rapid adoption given favourable TCO economics and lower range concerns. Since battery packs are smaller, charging time is lower compared to four-wheelers (4W) and in some cases offers the convenience of home charging. As per BNEF estimates, battery pack prices stood at ~US$ 156/kWh in 2019 and are likely to decline to ~US$ 100/kWh in 2023. The fall in prices will improve affordability and also provide headroom for electric 2W players to pack in relevant specifications with regards to power output and range, alongside attractive features.

Electric 2W launches are being spearheaded by new players/start-ups. Amongst incumbent 2W OEMs, BJAUT recently launched the 'Chetak' electric scooter which will commence retailing from Feb'20. Several of the new players are predominantly targeting the scooter segment as e-scooters can somewhat match the performance characteristics of ICE models and their upfront cost is not sharply higher.

We compare TCO over a five-year period for Ather's 'S450' electric scooter model (with and without subsidy) with the 'Activa 125cc' BS-VI variant. Breakeven period for Ather S450 is ~2.5 years with subsidy and ~5 years without subsidy. For a similar analysis on motorcycles, we compare the electric 'Revolt RV400' with HMCL's 'Super Splendor'. Breakeven period for the Revolt is higher at ~3.4 years with subsidy and ~6.5 years without subsidy.

We think electric scooters have a stronger case for rapid adoption over the next 2-3 years than other 2W categories, especially with the tailwind of declining battery pack prices. Nonetheless, the adoption rate will also depend on charging infrastructure and experience with battery degradation issues.

FIG 61 – ATHER S450 EV VS. ACTIVA 125CC BS-VI COMPARISON

Particulars	Ather S450 EV	Ather S450 EV (ex-subsidy)	Activa 125CC BS-VI
On-road vehicle cost (Rs)	113,715	140,447	78,763
Cost per unit of energy (Rs)	10	10	73
Fuel efficiency (km/l)	55*	55*	45
Energy cost per km (Rs)	0.4	0.4	1.6
Avg km run (per year)	9,000	9,000	9,000
Energy cost per year (Rs)	3,927	3,927	14,600
Energy cost (5yrs) (Rs)	19,636	19,636	73,000
Maintenance cost (5yrs) (Rs)	5,000	5,000	10,000
Total ownership cost (5yrs)	**139,888**	**165,083**	**161,763**

Source: Media reports, BOBCAPS Research | *Range on full battery capacity of 2.4kWh (Sport mode)

FIG 62 – REVOLT RV400 VS. SUPER SPLENDOR 125CC

Particulars	Revolt RV400 EV	Revolt RV400 (ex-subsidy)	Super Splendor (est BS-VI**)
On-road vehicle cost (Rs)	118,450	150,850	81,647
Per unit of energy (Rs)	10	10	73
Fuel efficiency (km/l)	120*	120*	65
Energy cost per km (Rs)	0.3	0.3	1.1
Avg km run (per year)	12,000	12,000	12,000
Energy cost per year (Rs)	3,240	3,240	13,477
Energy cost (5yrs) (Rs)	16,200	16,200	67,385
Maintenance cost (5yrs)	5,000	5,000	7,500
Total ownership cost (5yrs)	**148,650**	**181,050**	**165,531**

Source: Media reports, BOBCAPS Research | *Range on full battery capacity of 3.24kWh (80% of OEM's claim of 150km) | **Assumed 12% price hike for BS-VI model

Commercial vehicles: Recovery still some way off

In the midst of a downcycle…

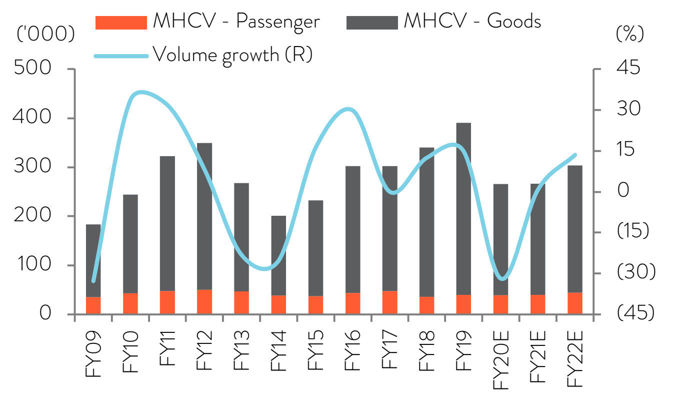
MHCV sales have plummeted in the past few quarters subsequent to a strong upcycle over FY14-FY19 when industry volumes rose at a 14% CAGR. Truck sales posted even stronger growth during this period with a 17%/20% CAGR in volumes/tonnage.

The volume decline began in Nov'18 and has progressively worsened, with Q2FY20 sales dropping 53% YoY. The downslide in wholesale numbers has been partly led by destocking ahead of BS-VI. Retail volumes are reportedly higher than wholesale, but this may reflect some pre-buying effect given the high discounts on offer by OEMs.

The truck segment-wise split shows a steep fall in long-haul category volumes by 46% YoY in H1FY20, followed by a 43% YoY dip in tipper sales. ICVs were growing till Q1FY20 but fell in Q2, registering a 19% YoY drop for the first half of the year. We think the tonnage mix can weaken further as the full impact of revised axle loads plays out.

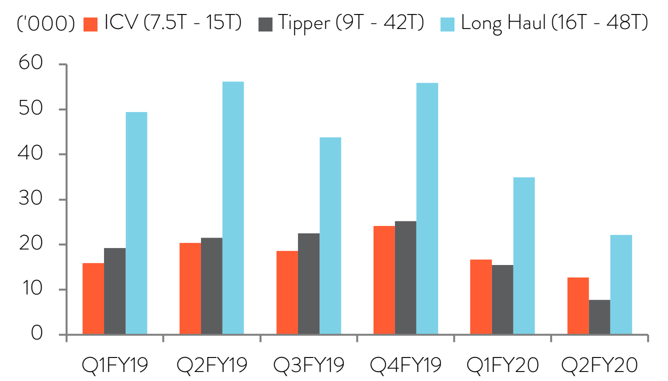
Truck cycles over the past two decades suggest that it takes anywhere from three to seven years once an upcycle commences to reach the previous peak. While MHCV sales may show positive growth from H2FY21 given a benign base, we believe recovery will be protracted given several near-to-mid-term headwinds. We expect MHCV volumes to decline 32% YoY in FY20. If meaningful pre-buying does take place in the next three months, H1FY21 could be quite weak. Overall, we model for a modest 7% volume CAGR for the segment over FY20-FY22.

FIG 63 – MHCV VOLUMES AND GROWTH



Source: SIAM, ET Autolytics, BOBCAPS Research

FIG 64 – SEGMENTAL VOLUMES



Source: Ashok Leyland presentation, BOBCAPS Research

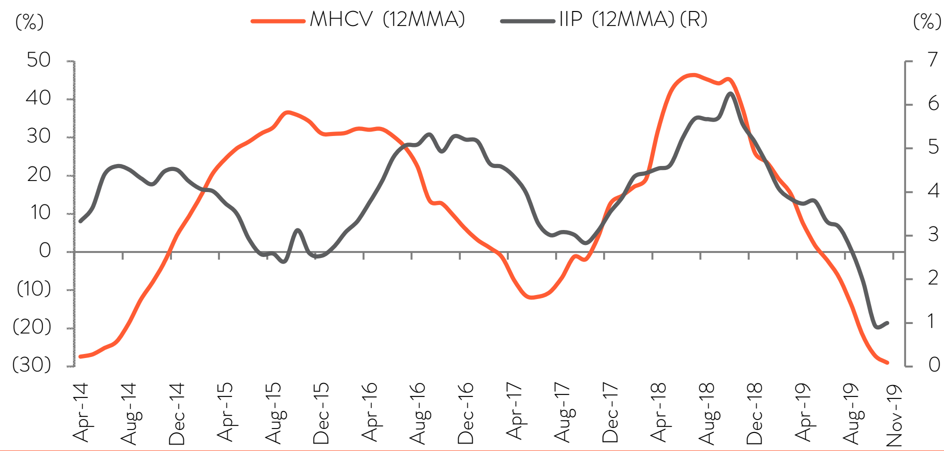
...led by a confluence of negative factors

In our view, domestic truck demand will continue to be weighed down by (1) the current weak macro climate, (2) spike in system-wide freight carrying capacity post regulatory changes, (3) transition to BS-VI emission standards in Apr'20, and (4) DFC commissioning.

Weak macro climate hurting sales

MHCV truck sales are fairly correlated with macroeconomic growth, adjusted for some lead-lag effect. GDP growth has declined to 4.5% in Q2FY20 and IIP growth has slowed, growing by only 0.6% YoY in Apr-Nov'19 against a 5% YoY uptick in Apr-Nov'18. The government on its part is looking at measures to revive growth but is constrained by fiscal pressure. Our Chief Economist at Bank of Baroda expects macro recovery to be gradual with an estimate of 5.7% GDP growth in FY21.

FIG 65 – IIP GROWTH VS. MHCV TRUCK GROWTH



Source: RBI, SIAM, ET Autolytics, BOBCAPS Research

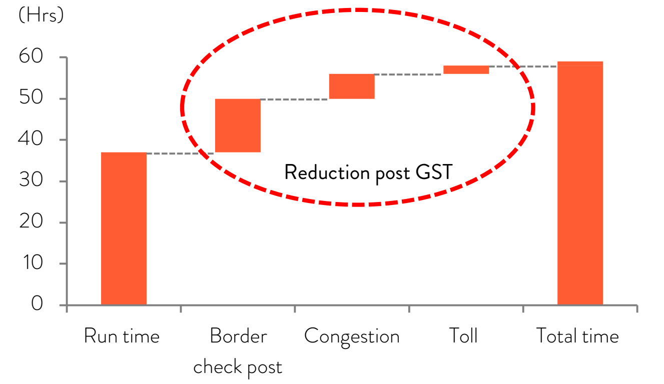
Sharp rise in system-wide freight carrying capacity

GST introduction in Jul'17 and revised axle load norms in Aug'18 are estimated to have raised system freight-carrying capacity significantly. As freight demand rises, fleet operators will optimise benefits from the additional tonnage capacity and shorter lead times – this impact will continue to play out, eating into MHCV volumes.

We estimate that industry-wide capacity for MHCV trucks, represented by BTKM (billion-tonne kilometres), has grown by an average of 7-8% per annum over the last decade. Taking FY17 (pre-GST/axle norm impact) as the base year for our calculation and assuming a similar ~7% CAGR tonnage rise till FY25, the implied volume CAGR for MHCV trucks over FY20-FY25 stands at 10%.

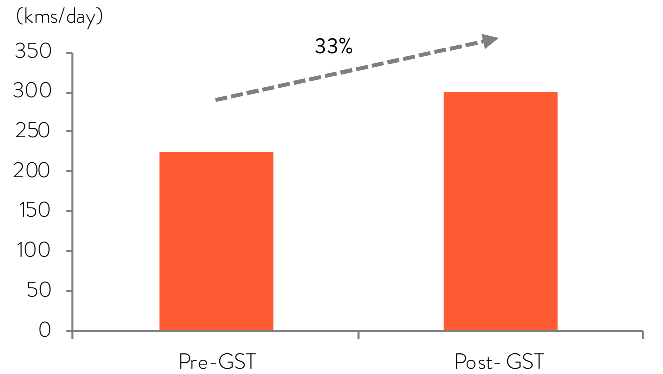
GST impact: GST implementation has improved road freight operating efficiency. According to the Ministry of Road Transport and Highways (MORTH), travel time for the Chennai-Kolkata route (typically 50-65hrs) has reduced by ~20 to 30%. Average truck movement of 225km/day prior to GST has improved to ~300km/day.

FIG 66 – PRE- GST AVG. TRAVEL TIME



Source: Ministry of Road Transport& Highway, BOBCAPS Research
Note: For Chennai-Kolkata route

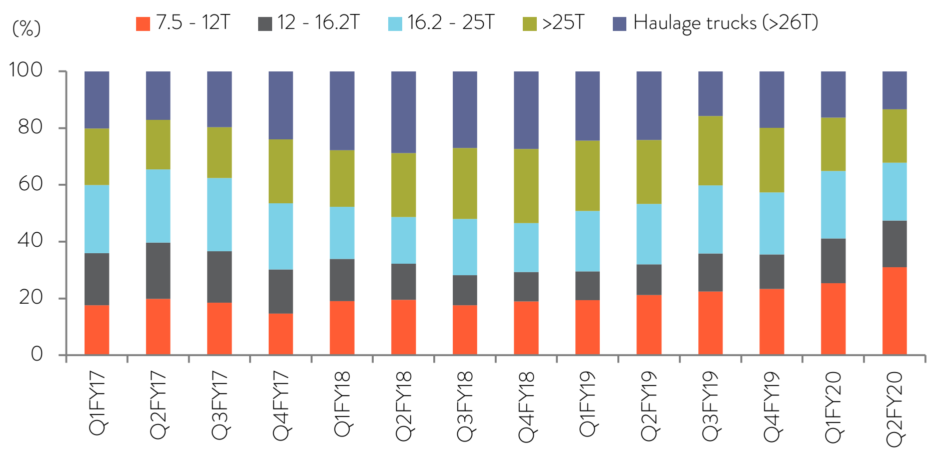
FIG 67 – IMPACT ON AVG. RUNNING DISTANCE



Source: Ministry of Road Transport& Highway, BOBCAPS Research

Axle load impact: In Jul'18, MORTH announced new axle load norms for trucks, which increased the effective payload capacity by 12-25% across different categories. In the wake of this announcement, we note a marked shift in the tonnage mix of MHCV trucks, with the sub-16T segments posting a sharp rise from 30% in Q4FY17 to 47% in Q2FY20. It is difficult to estimate how much of this shift was driven by the axle norm change and by the general macro slowdown (which typically hurts the heavy-duty segment more).

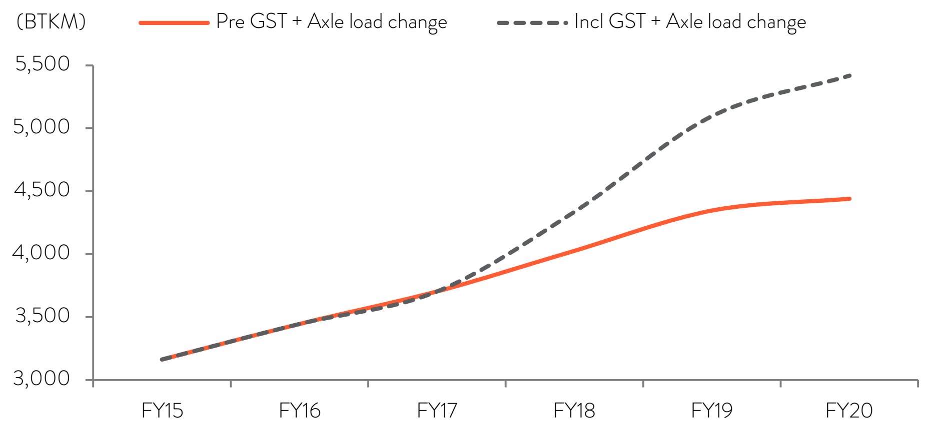
FIG 68 – MHCV TRUCK SALES TONNAGE MIX



Source: SIAM, ET Autolytics, BOBCAPS Research

Industry checks suggest that ~65% of truck sales are in volumetric categories (vehicle carriers, oil tankers, cement bulkers) and hence unlikely to be affected by the change in axle norms. System tonnage capacity should see a ~5% rise if the balance 35% of volumes can carry ~15% additional payload. If we add in the GST-led efficiency impact, overall system capacity in BTKM terms could rise 20-22%.

FIG 69 – ESTIMATED BTKM FOR MHCV TRUCKS



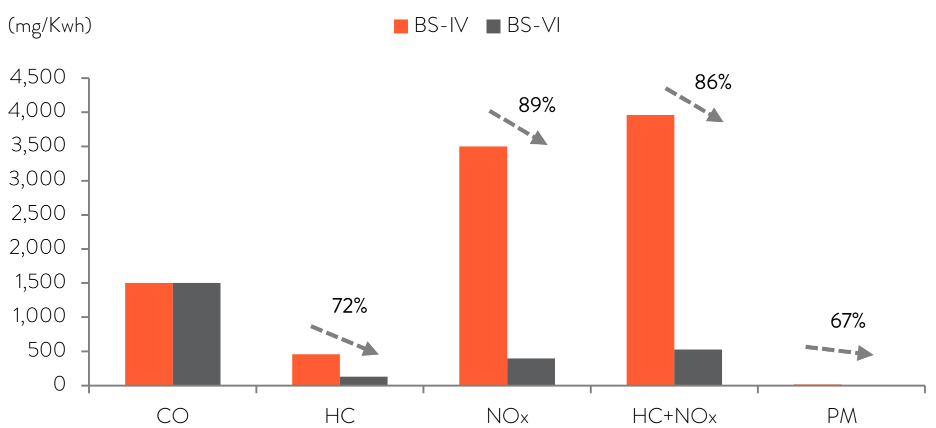
Source: SIAM, ET Autolytics, BOBCAPS Research, Ministry of Road Transport & Highway

BS-VI transition – step jump in cost amid soft demand environment

BS-VI norms bring in significantly tighter emission standards for MHCVs, with a mandated reduction in HC+NOx levels by ~86% and PM by 67% – akin to Euro-VI norms. The key challenge under Euro-VI (and BS-VI) is optimising engine efficiency while controlling resultant pollutants.

A combination of exhaust gas recirculation (EGR) for in-cylinder NOx reduction along with selective catalytic reduction (SCR) for after-treatment of exhaust gases is a widely used solution amongst global CV makers for meeting Euro-VI or equivalent norms.

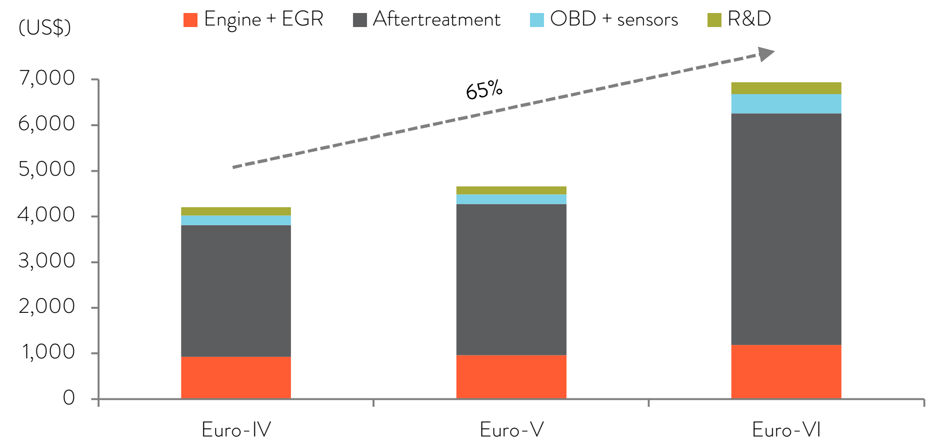
FIG 70 – CHANGE IN LIMITS FOR MAJOR POLLUTANTS UNDER BS-VI



Source: ARAI, BOBCAPS Research

When transitioning from Euro-III to Euro-VI norms, the largest cost increase stems from hardware requirements for after-treatment. Between Euro-IV and VI, the incremental jump in cost for 12L engines is ~US$ 2,700 or Rs 190k, as per International Council on Clean Transportation (ICCT) estimates.

FIG 71 – INCREMENTAL TECHNOLOGY COST TO MEET EURO-VI STANDARDS



Source: ICCT, BOBCAPS Research Note: Above figures are based on cost rise for a CV with a 12L engine

Indian CV OEMs have indicated a 10-15% cost increase across the MHCV product range for upgrading to BS-VI norms. In our view, OEMs will find it hard to pass on the entire cost increase without any ostensible improvement in operating parameters, especially in the current soft demand environment.

FIG 72 – ADDITIONAL HARDWARE REQUIREMENTS FOR BS-VI*

Additional part	Comments
Variable geometry turbocharger (VGT)	Keeps PM levels low while optimising power output
Diesel particulate filter (DPF)	Filters PM from engine-out exhaust gases
Upgraded SCR system	Addition of NOx sensors and ammonia slip catalyst
Upgraded onboard diagnostic system (OBD II)	Checks efficiency of systems in the vehicle

Source: ICCT, BOBCAPS Research | *Assuming EGR is already present

With the exception of AL, most incumbents had adopted an SCR system while transitioning to BS-IV norms in 2017. AL creditably developed an indigenous solution called iEGR which has proved to be a viable technology and helped the company gain market share.

For the BS-VI shift, players already using SCR systems will need to further upgrade and, in some cases, add an EGR module. AL has developed a solution which combines its existing iEGR solution with a new SCR system. This implies that the cost increase may be higher for AL, which may be visible through pressure on market share or margins.

DFC to drive modal mix shift in favour of railways

As per a recent update on DFC project status, overall physical progress has reached 68.5% in Nov'19. Completion of the Western DFC (WDFC) is likely by Mar'21 and Eastern DFC (EDFC) by Dec'21. With the large incremental rail freight capacity being created, we believe road freight demand will be hit, though the degree of impact will depend on freight rates and efficiency of the DFC network. We discuss the potential implications for MHCV demand:

- Rail freight has witnessed muted growth over the past five years, rising at a modest 1.5% CAGR in NTKM. During this period, MHCV truck volumes rose at a 17% CAGR and tonnage grew at a ~20% CAGR, per our estimates. As a result, the share of rail freight is estimated to have declined to ~30% at present.
- Based on our calculations, the WDFC and EDFC could transport ~380mtpa on a combined basis, translating to 286btkm of freight carrying capacity. To put this figure in context, the India Railways carried total freight of ~701bktm in FY19, implying a ~40% addition to rail freight capacity over the next few years.
- In an ex-DFC scenario, we assume overall rail freight growth at 3% CAGR over FY19-FY26. With DFC commissioning in FY21, we assume routes covered under the corridor will witness an 11% CAGR in freight till FY26 (derived from DFC attaining 80% capacity utilisation in five years) – this would push up total rail freight growth to a 6% CAGR.

Assuming the incremental growth on DFC routes comes via a modal shift from road, we arrive at a potential volume loss of ~152k units for trucks over FY21-FY26 or ~30k units per year. This implies a 10-15% potential volume impact on MHCV trucks annually.

FIG 73 – POTENTIAL IMPACT OF DFC ON TRUCK VOLUMES

Particulars (mn)	FY19	FY26E (ex-DFC)	CAGR (%)	FY26E (DFC)	CAGR (%)
NTKM on West and East routes relevant to DFC	2,63,964	3,18,339	3	5,44,890	11
Remaining routes NTKM	4,37,420	5,27,525	3	5,27,525	3
Total NTKM by Rail	7,01,384	8,45,864	3	10,72,415	6
Incremental freight NTKM due to DFC				2,26,551	
Potential truck volumes impacted (nos)				**1,52,560**	

Source: Indian Railways, BOBCAPS Research

Scrappage scheme – more unknowns than knowns

The government has been working on a scrappage policy for all vehicular categories for the past 2-3 years. In our view, such a scheme is most relevant for old MHCVs (trucks in particular) given the need to support the industry during this sharp downcycle and the fact that this category is deemed to be amongst the highest polluting.

In the absence of any formal end-of-life definition, we assume a maximum vehicle life of 25 years. If a mandatory 15-year scrapping norm is put in place (optimistic scenario), we estimate that ~0.6mn trucks or 1.7x FY19 volumes can potentially be scrapped. The above calculation assumes that 50% of the 1.2mn registered trucks aged between 16-25 years are likely self-deregistered due to vehicle deterioration and limited avenues for usage.

The replacement of an equivalent number of trucks which are indeed scrapped is not a given. In our view, the effective reduction in system tonnage from scrapping 16-to-25-year-old trucks would be relatively small and hence warrant much lower replacement volumes. Also, it is rather unlikely that a seller of a 16-to-25-year-old truck will replace his vehicle with a new one. Therefore, besides fair compensation to affected owners, the scrappage scheme needs to build in adequate incentives to lure potential new truck buyers.

Needless to say, for a voluntary scrappage scheme to have any meaningful impact, large incentives must be doled out. On the other hand, disincentives by way of increasing registration charges or penalties on >15-year-old vehicles are unlikely to spur substantial replacement demand, in our view.

We note that infrastructure in terms of formalised scrapping centres is virtually non-existent at present. MORTH has recently brought out draft guidelines for setting up authorised vehicle scrapping facilities. Viability of these facilities will depend on volumes generated through the scrappage scheme and possibly regulated spreads in this business, both of which are unknowns at present.

Companies

SELL
TP: Rs 68 | ⋎ 19%

ASHOK LEYLAND | Automobiles | 20 January 2020

Demand headwinds to persist – SELL

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We expect a protracted MHCV downcycle and subsequent slow recovery given low fleet utilisation (due to a capacity overhang), BS-VI related cost burden, and risk of a DFC-led modal mix shift away from road. A downshift in tonnage mix and cessation of Pantnagar tax benefits could hurt AL's market share and margins. Consensus estimates build in earnings recovery in FY21 which looks premature (we are 25-28% below the street for FY21/FY22). At 21x FY22E P/E, the stock is expensive. Resume coverage with SELL and a Mar'21 TP of Rs 68.

MHCV downcycle to be prolonged: We expect a sharp 32% YoY volume drop in MHCVs for FY20 and believe an upcycle is still some time away, as fresh system capacity created by GST-led efficiency gains and axle norm changes needs to be absorbed fully. The 10-15% cost rise estimated for MHCVs toward BS-VI changeover alongside potential reduction in road freight upon DFC commissioning are added headwinds over the medium-term.

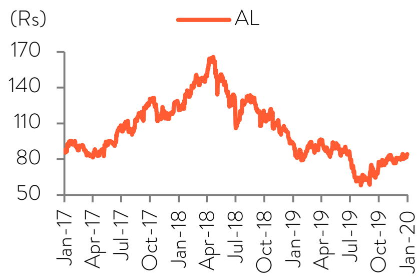
Market share and margin challenges ahead: As the industry tonnage mix shifts down due to the regulatory changes and as AL potentially faces higher cost pressures than peers from BS-VI changeover, the company could see market share and margin pressures. Further, AL's tax incentive at Pantnagar ends in FY20, which could shave 30-50bps off operating margins in FY21.

Resume coverage with SELL: Given the magnitude of volume decline expected in MHCVs in FY20, the street is assuming an upcycle will commence from FY21 and hence building in sharp earnings recovery. In our view, given the demand and margin headwinds for the industry and AL in particular, EPS growth is likely to be flattish next year. Our estimates for FY21/FY22 are 25-28% below consensus. Even on higher consensus estimates, the stock trades at 22x FY21E which isn't cheap. We resume coverage with SELL and a TP of Rs 68 set at 17x FY22E EPS.

Ticker/Price	AL IN/Rs 84
Market cap	US$ 3.5bn
Shares o/s	2,935mn
3M ADV	US$ 23.0mn
52wk high/low	Rs 98/Rs 57
Promoter/FPI/DII	51%/23%/10%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS – STANDALONE

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	263,564	290,549	206,273	227,600	253,422
EBITDA (Rs mn)	29,635	31,357	17,536	18,168	23,392
Adj. net profit (Rs mn)	17,405	20,292	8,362	8,161	11,700
Adj. EPS (Rs)	5.9	6.9	2.8	2.8	4.0
Adj. EPS growth (%)	41.1	16.6	(58.8)	(2.4)	43.4
Adj. ROAE (%)	24.0	24.4	9.7	9.1	12.5
Adj. P/E (x)	14.2	12.2	29.5	30.2	21.1
EV/EBITDA (x)	8.5	7.5	13.0	13.5	10.8

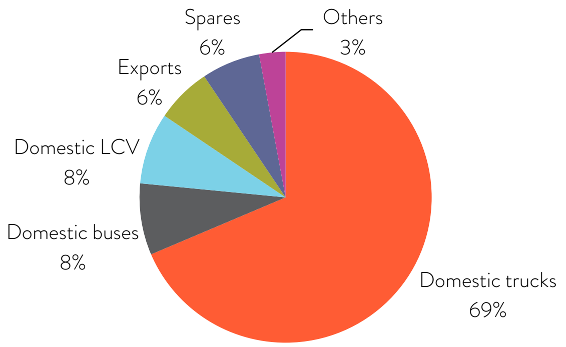
Source: Company, BOBCAPS Research

FIG 1 – SALES VOLUME SNAPSHOT

(Nos)	FY18	FY19	FY20E	FY21E	FY22E
Total	**174,873**	**197,366**	**148,740**	**148,060**	**163,245**
YoY growth (%)	21	13	(25)	(0)	10
Domestic Sales	**158,634**	**185,065**	**139,640**	**138,013**	**151,802**
YoY growth (%)	19	17	(25)	(1)	10
MHCV	116,534	131,936	88,955	89,739	100,100
YoY growth (%)	14	13	(33)	1	12
LCV	42,100	53,129	50,684	48,274	51,702
YoY growth (%)	36	26	(5)	(5)	7
Exports	**16,239**	**12,301**	**9,100**	**10,047**	**11,443**
YoY growth (%)	38	(24)	(26)	10	14

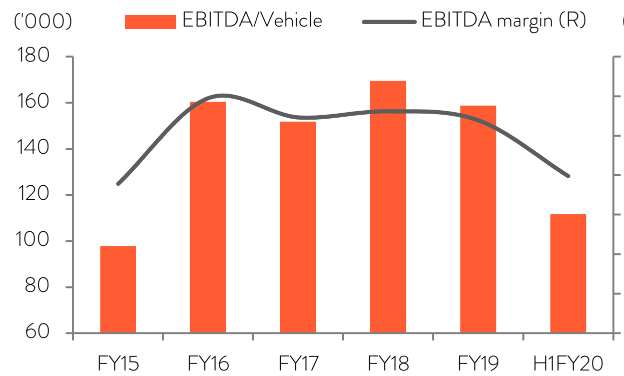
Source: Company, ET Autolytics, BOBCAPS Research

FIG 2 – AL'S ESTIMATED REVENUE MIX, FY19



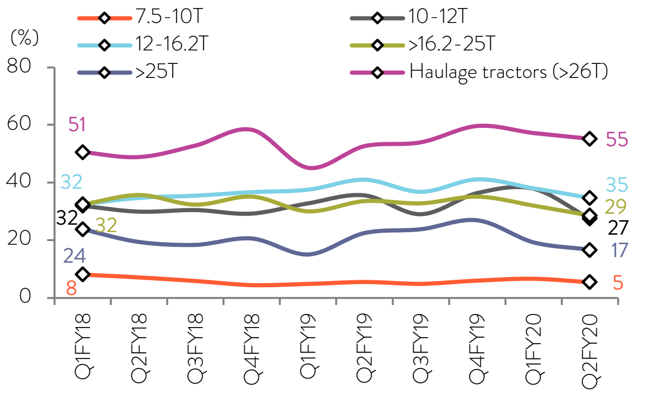
Source: Company, BOBCAPS Research

FIG 3 – EBITDA PER VEHICLE TREND



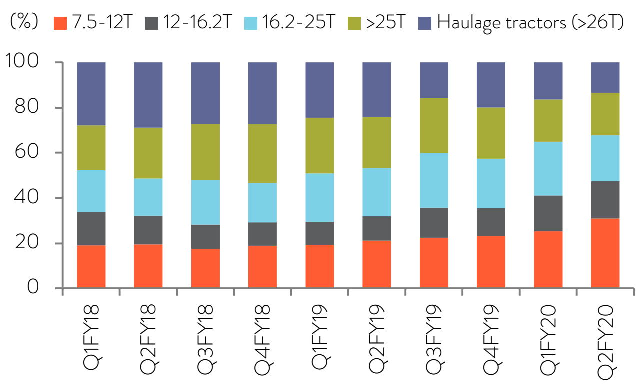
Source: Company, BOBCAPS Research

FIG 4 – AL'S MHCV MARKET SHARE TRENDS



Source: Company, SIAM, BOBCAPS Research

FIG 5 – MHCV TONNAGE MIX FOR INDUSTRY



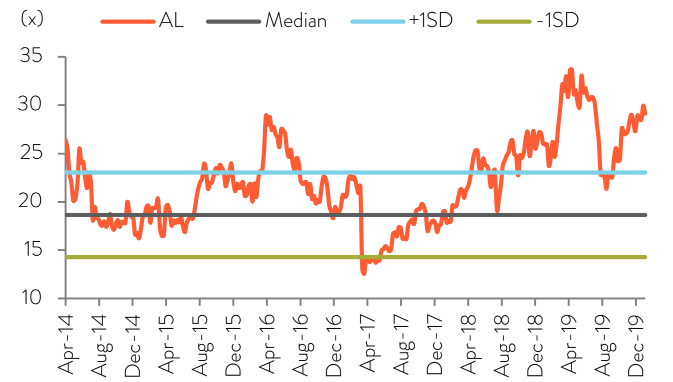
Source: SIAM, ET Autolytics, BOBCAPS Research

Valuation methodology

Consensus has baked in a sharp earnings recovery for AL from FY21 which we think is premature. The stock has risen by ~40% in the past 3-4 months on hopes of a scrappage scheme being rolled out. Even if it were announced soon, we see low probability of any substantial volume boost from the scheme. Valuations at 30x/21x FY21E/FY22E EPS are not cheap considering impending headwinds from BS-VI and DFC commissioning.

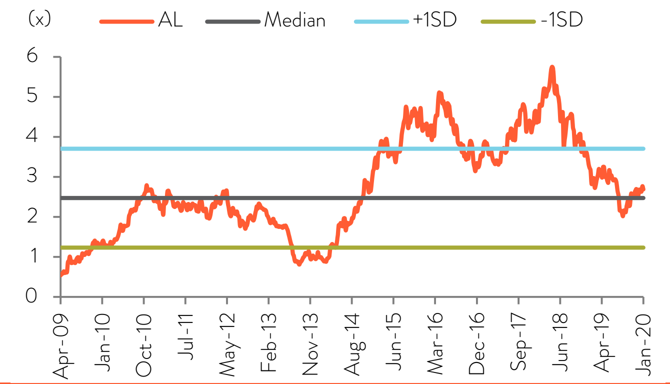
We believe AL's earnings will normalise from FY22 and hence prefer valuing the stock on P/E basis. Our target multiple of 17x is at 20% discount to the past five-year average which we think is justified given our view that the CV upcycle is still some time away and AL may face market share challenges. We resume coverage with SELL and a Mar'21 target price of Rs 68 set at 17x FY22E EPS.

FIG 6 – P/E MULTIPLE (ONE-YEAR FORWARD)



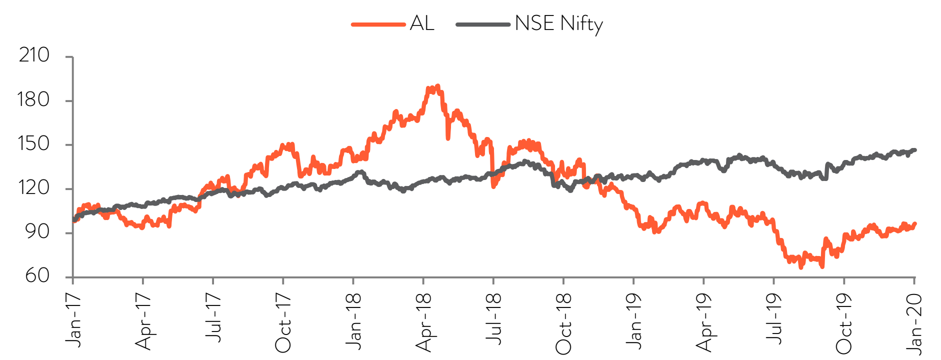
Source: Bloomberg, BOBCAPS Research, Company

FIG 7 – P/B MULTIPLE (ONE-YEAR FORWARD)



Source: Bloomberg, BOBCAPS Research, Company

FIG 8 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- A scrappage scheme with significant government support in the form of large incentives for fleet replacement could lend a short-term boost to CV demand.
- Economic recovery backed by additional fiscal stimulus from the government could drive a faster-than-expected revival in CV volumes.
- Delay in DFC commissioning could defer the potential volume shift from road to rail.

FINANCIALS – STANDALONE

Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue	**263,564**	**290,549**	**206,273**	**227,600**	**253,422**
EBITDA	29,635	31,357	17,536	18,168	23,392
Depreciation	5,985	6,210	6,670	7,541	8,020
EBIT	23,650	25,147	10,866	10,627	15,372
Net interest income/(expenses)	(1,473)	(704)	(805)	(961)	(1,101)
Other income/(expenses)	1,966	1,099	1,179	1,304	1,455
Exceptional items	(285)	(575)	0	0	0
EBT	23,858	24,968	11,240	10,969	15,726
Income taxes	6,681	5,136	2,877	2,808	4,026
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	**17,177**	**19,832**	**8,362**	**8,161**	**11,700**
Adjustments	228	460	0	0	0
Adjusted net profit	**17,405**	**20,292**	**8,362**	**8,161**	**11,700**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Accounts payables	48,879	50,189	35,402	39,082	43,555
Other current liabilities	25,971	29,353	29,353	29,353	29,353
Provisions	10,635	10,524	10,524	10,524	10,524
Debt funds	12,438	6,356	10,356	12,356	14,356
Other liabilities	0	0	0	0	0
Equity capital	2,927	2,936	2,936	2,936	2,936
Reserves & surplus	69,528	80,389	83,451	86,666	90,947
Shareholders' fund	72,455	83,324	86,387	89,602	93,882
Total liabilities and equities	**170,378**	**179,747**	**172,022**	**180,917**	**191,671**
Cash and cash eq.	41,973	13,736	6,252	5,955	8,387
Accounts receivables	9,448	25,055	19,361	21,373	23,139
Inventories	17,583	26,847	17,701	20,152	22,458
Other current assets	20,138	27,520	27,790	28,060	28,330
Investments	24,515	26,365	30,365	32,365	36,365
Net fixed assets	55,480	56,145	66,475	68,934	68,913
CWIP	4,226	6,576	6,576	6,576	6,576
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(2,986)	(2,497)	(2,497)	(2,497)	(2,497)
Other assets	0	0	0	0	0
Total assets	**170,378**	**179,747**	**172,022**	**180,917**	**191,671**

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income + Depreciation	23,162	26,042	15,033	15,702	19,720
Interest expenses	1,473	704	805	961	1,101
Non-cash adjustments	1,717	(488)	0	0	0
Changes in working capital	32,915	(27,671)	(217)	(1,053)	131
Other operating cash flows	0	0	0	0	0
Cash flow from operations	**59,266**	**(1,413)**	**15,620**	**15,610**	**20,952**
Capital expenditures	(13,924)	(9,225)	(17,000)	(10,000)	(8,000)
Change in investments	(4,444)	(1,850)	(4,000)	(2,000)	(4,000)
Other investing cash flows	0	0	0	0	0
Cash flow from investing	**(18,368)**	**(11,075)**	**(21,000)**	**(12,000)**	**(12,000)**
Equities issued/Others	81	8	0	0	0
Debt raised/repaid	(9,307)	(6,082)	4,000	2,000	2,000
Interest expenses	(1,473)	(704)	(805)	(961)	(1,101)
Dividends paid	(8,598)	(10,971)	(5,300)	(4,946)	(7,420)
Other financing cash flows	2,535	1,999	0	0	0
Cash flow from financing	**(16,762)**	**(15,749)**	**(2,104)**	**(3,907)**	**(6,520)**
Changes in cash and cash eq.	**24,136**	**(28,237)**	**(7,484)**	**(297)**	**2,432**
Closing cash and cash eq.	**41,973**	**13,736**	**6,252**	**5,955**	**8,387**

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
Reported EPS	5.9	6.9	2.8	2.8	4.0
Adjusted EPS	5.9	6.9	2.8	2.8	4.0
Dividend per share	2.4	3.1	1.5	1.4	2.1
Book value per share	24.8	28.4	29.4	30.5	32.0

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
EV/Sales	1.0	0.8	1.1	1.1	1.0
EV/EBITDA	8.5	7.5	13.0	13.5	10.8
Adjusted P/E	14.2	12.2	29.5	30.2	21.1
P/BV	3.4	3.0	2.9	2.8	2.6

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20E	FY21E	FY22E
Tax burden (Net profit/PBT)	72.0	79.4	74.4	74.4	74.4
Interest burden (PBT/EBIT)	100.9	99.3	103.4	103.2	102.3
EBIT margin (EBIT/Revenue)	9.0	8.7	5.3	4.7	6.1
Asset turnover (Revenue/Avg TA)	170.3	166.0	117.3	129.0	136.0
Leverage (Avg TA/Avg Equity)	231.5	224.8	207.3	200.5	203.1
Adjusted ROAE	24.0	24.4	9.7	9.1	12.5

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
YoY growth (%)					
Revenue	30.9	10.2	(29.0)	10.3	11.3
EBITDA	34.6	5.8	(44.1)	3.6	28.8
Adjusted EPS	41.1	16.6	(58.8)	(2.4)	43.4
Profitability & Return ratios (%)					
EBITDA margin	11.2	10.8	8.5	8.0	9.2
EBIT margin	9.0	8.7	5.3	4.7	6.1
Adjusted profit margin	6.6	7.0	4.1	3.6	4.6
Adjusted ROAE	24.0	24.4	9.7	9.1	12.5
ROCE	29.1	28.5	12.1	11.4	15.2
Working capital days (days)					
Receivables	13	31	34	34	33
Inventory	24	34	31	32	32
Payables	68	63	63	63	63
Ratios (x)					
Gross asset turnover	3.0	3.1	2.0	2.1	2.2
Current ratio	1.0	1.0	0.9	1.0	1.0
Net interest coverage ratio	16.1	35.7	13.5	11.1	14.0
Adjusted debt/equity	(0.4)	(0.1)	0.0	0.1	0.1

Source: Company, BOBCAPS Research

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

ADD
TP: Rs 3,470 | ▲ 11%

BAJAJ AUTO | Automobiles | 20 January 2020

Improving domestic franchise, limited BS-VI risk – ADD

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Bajaj Auto's (BJAUT) aggressive pricing strategy since Q4FY18 has spurred healthy volume growth and market share gains, albeit at the cost of margins. The company's move to focus on its domestic franchise was necessary to sustain its dealer network. With a diversified mix, BJAUT is in a better position to navigate the BS-VI transition. Exports, however, may see a cyclical slowdown given the high base and tepid global growth outlook. Valuations at 17x FY21E P/E are in line with the past 5Y average. Resume coverage with ADD; Mar'21 TP Rs 3,470.

Steady rebuilding of domestic franchise: Over the past six quarters, BJAUT has gained ~400bps market share to 19% but also yielded ~300bps of operating margins. Its focus on market share is likely to continue, but with an upshift in the commuter segment (from 100cc to 110cc) and price hikes in the premium space, the mix-led margin impact should be mitigated. Over the medium term, a wider portfolio with e-scooters and leisure bikes will be an added growth lever.

Better placed to handle regulatory cost push: BJAUT derives less than 40% of its EBITDA from domestic business and has a low share of revenue and profits from price-sensitive segments – this positions it better to navigate BS-VI. Indeed, we think the company even has leeway to absorb a part of the BS-VI cost rise in entry-level segments so as to improve its competitive position.

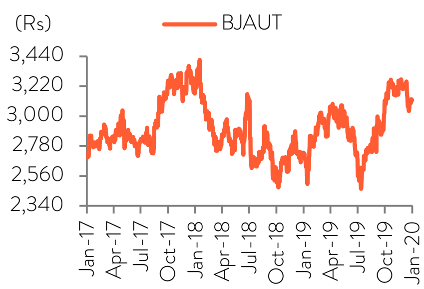
Exports face cyclical slowdown risk: BJAUT's export volumes logged a 21% CAGR over FY17-FY19 aided by an uptick in Africa and ASEAN. A high base and softening global growth call for caution, though INR depreciation is a tailwind.

Valuations sustainable: Valuations at 17x FY21E should sustain given a steady 9% earnings CAGR over FY20-FY22E, a strong FCF profile and cash/Mcap at ~25%. Resume coverage with ADD and a TP of Rs 3,470 set at 17x FY22E EPS.

Ticker/Price	BJAUT IN/Rs 3,118
Market cap	US$ 12.7bn
Shares o/s	289mn
3M ADV	US$ 17.7mn
52wk high/low	Rs 3,289/Rs 2,442
Promoter/FPI/DII	54%/14%/9%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS – STANDALONE

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	251,649	302,500	312,502	347,427	377,703
EBITDA (Rs mn)	47,834	49,820	49,854	53,586	59,797
Adj. net profit (Rs mn)	40,921	44,187	49,247	53,105	59,020
Adj. EPS (Rs)	141.4	153.3	170.2	183.5	204.0
Adj. EPS growth (%)	6.9	8.4	11.0	7.8	11.1
Adj. ROAE (%)	22.1	21.2	20.8	20.1	20.1
Adj. P/E (x)	22.1	20.3	18.3	17.0	15.3
EV/EBITDA (x)	16.4	15.0	14.5	13.1	11.3

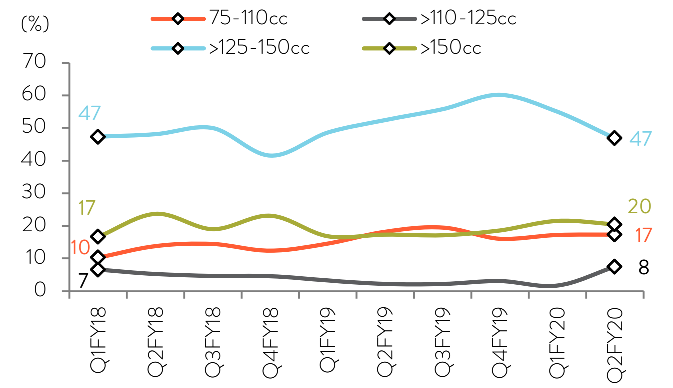
Source: Company, BOBCAPS Research

FIG 1 – SALES VOLUME SNAPSHOT

(Nos)	FY18	FY19	FY20E	FY21E	FY22E
Total	**4,005,186**	**5,018,082**	**4,845,903**	**5,093,762**	**5,414,078**
YoY growth (%)	9	25	(3)	5	6
Domestic Sales	**2,344,214**	**2,942,755**	**2,677,723**	**2,807,318**	**3,020,407**
YoY growth (%)	4	26	(9)	5	8
2W	1,974,577	2,543,302	2,284,262	2,421,726	2,615,536
YoY growth (%)	(1)	29	(10)	6	8
3W	369,637	399,453	393,461	385,592	404,872
YoY growth (%)	46	8	(2)	(2)	5
Exports	**1,660,972**	**2,075,327**	**2,168,180**	**2,286,444**	**2,393,670**
YoY growth (%)	18	25	4	5	5
2W	1,394,757	1,695,553	1,839,675	1,931,659	2,028,242
YoY growth (%)	14	22	9	5	5
3W	266,215	379,774	328,505	354,785	365,429
YoY growth (%)	39	43	(14)	8	3

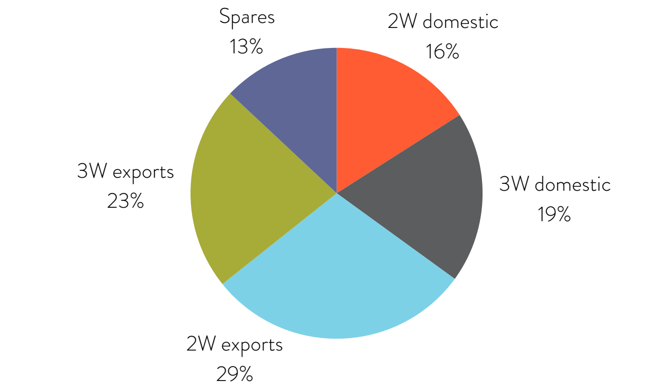
Source: SIAM, ET Autolytics, BOBCAPS Research

FIG 2 – DOMESTIC MOTORCYCLE MARKET SHARE



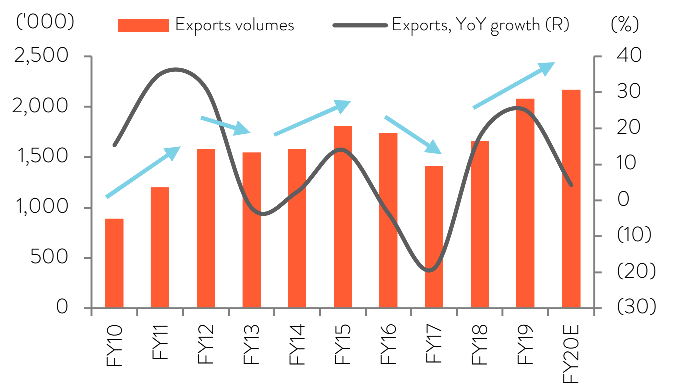
Source: SIAM, ET Autolytics, BOBCAPS Research

FIG 3 – ESTIMATED EBITDA MIX, FY19



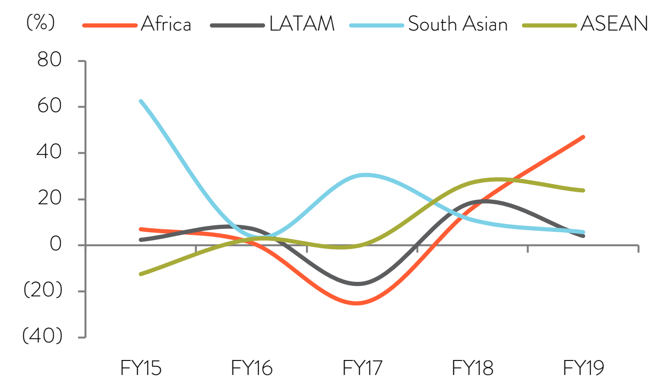
Source: Company, BOBCAPS Research

FIG 4 – BJAUT'S EXPORT VOLUME TREND



Source: Company, BOBCAPS Research

FIG 5 – 2W EXPORT GROWTH FROM INDIA

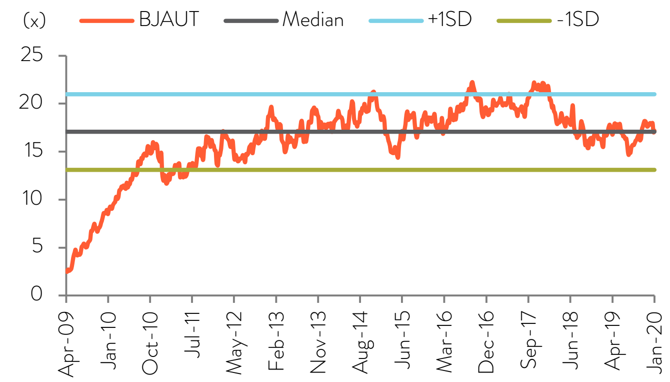


Source: Department of Commerce, BOBCAPS Research

Valuation methodology

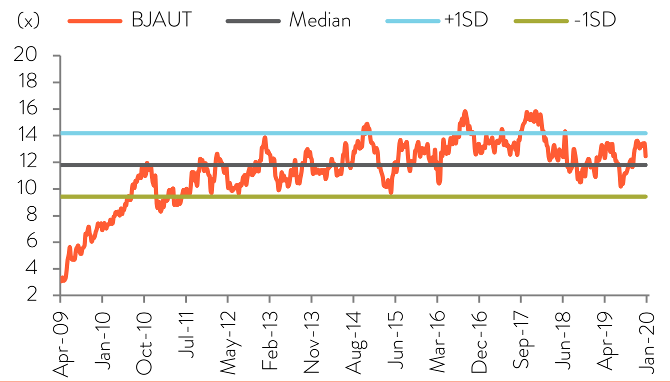
BJAUT currently trades at ~17x FY21E EPS which is in line with its past five-year average. Considering limited risk from BS-VI transition, steady earnings at ~9% CAGR expected over FY20-FY22 and a solid balance sheet with cash/Mcap of ~25%, we believe current valuations would sustain. We resume coverage with ADD and a Mar'21 target price of Rs 3,470 set at 17x FY22E EPS.

FIG 6 – P/E MULTIPLE (ONE-YEAR FORWARD)



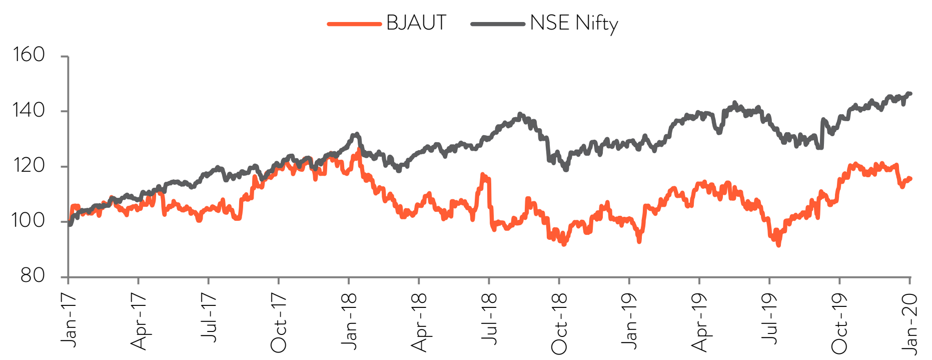
Source: Bloomberg, BOBCAPS Research, Company

FIG 7 – EV/EBITDA MULTIPLE (ONE-YEAR FORWARD)



Source: Bloomberg, BOBCAPS Research, Company

FIG 8 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- Imposition of tariff barriers or regulatory changes impacting 2Ws/3Ws in BJAUT's key export markets could adversely impact its exports business.
- Significant downtrading in the 2W industry as a result of the BS-VI led cost increase could impact BJAUT's market share given its strong presence in 150cc-and-above segments.
- Rapid shift of three-wheelers to EVs could affect the company's dominant position and profitability in this segment.

FINANCIALS – STANDALONE

Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue	**251,649**	**302,500**	**312,502**	**347,427**	**377,703**
EBITDA	47,834	49,820	49,854	53,586	59,797
Depreciation	3,148	2,657	2,464	2,775	3,050
EBIT	44,686	47,163	47,390	50,810	56,747
Net interest income/(expenses)	(13)	(45)	(49)	(54)	(60)
Other income/(expenses)	13,473	16,493	16,616	18,212	19,962
Exceptional items	(320)	3,420	0	0	0
EBT	57,826	67,032	63,957	68,968	76,650
Income taxes	17,145	20,280	14,710	15,863	17,629
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	**40,681**	**46,752**	**49,247**	**53,105**	**59,020**
Adjustments	240	(2,565)	0	0	0
Adjusted net profit	**40,921**	**44,187**	**49,247**	**53,105**	**59,020**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Accounts payables	32,443	37,867	39,026	43,433	47,237
Other current liabilities	7,893	11,159	11,659	12,159	12,659
Provisions	2,378	1,552	1,802	2,052	2,302
Debt funds	1,208	0	0	0	0
Other liabilities	0	0	0	0	0
Equity capital	2,894	2,894	2,894	2,894	2,894
Reserves & surplus	188,145	214,905	241,478	270,165	301,278
Shareholders' fund	191,039	217,799	244,372	273,059	304,172
Total liabilities and equities	**234,961**	**268,377**	**296,859**	**330,702**	**366,371**
Cash and cash eq.	171,436	188,595	212,362	238,783	267,864
Accounts receivables	14,919	25,597	26,380	29,359	31,931
Inventories	7,426	9,615	9,909	11,028	11,994
Other current assets	12,839	19,651	20,751	21,851	22,951
Investments	12,227	12,227	12,227	12,227	12,227
Net fixed assets	18,783	17,639	20,176	22,401	24,350
CWIP	565	480	480	480	480
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(3,234)	(5,427)	(5,427)	(5,427)	(5,427)
Other assets	0	0	0	0	0
Total assets	**234,961**	**268,377**	**296,859**	**330,702**	**366,371**

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income + Depreciation	43,829	49,409	51,711	55,880	62,070
Interest expenses	13	45	49	54	60
Non-cash adjustments	98	2,192	0	0	0
Changes in working capital	11,516	(11,815)	(269)	(41)	(83)
Other operating cash flows	0	0	0	0	0
Cash flow from operations	**55,456**	**39,831**	**51,491**	**55,894**	**62,047**
Capital expenditures	(2,056)	(1,429)	(5,000)	(5,000)	(5,000)
Change in investments	0	0	0	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	**(2,056)**	**(1,429)**	**(5,000)**	**(5,000)**	**(5,000)**
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	9	(1,208)	0	0	0
Interest expenses	(13)	(45)	(49)	(54)	(60)
Dividends paid	(20,575)	(20,930)	(22,674)	(24,418)	(27,907)
Other financing cash flows	592	939	0	0	0
Cash flow from financing	**(19,988)**	**(21,244)**	**(22,723)**	**(24,473)**	**(27,966)**
Changes in cash and cash eq.	**33,411**	**17,159**	**23,768**	**26,421**	**29,080**
Closing cash and cash eq.	**171,436**	**188,595**	**212,362**	**238,783**	**267,864**

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
Reported EPS	141.4	153.3	170.2	183.5	204.0
Adjusted EPS	141.4	153.3	170.2	183.5	204.0
Dividend per share	60.0	60.0	65.0	70.0	80.0
Book value per share	660.2	752.7	844.5	943.6	1,051.2

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
EV/Sales	3.1	2.5	2.3	2.0	1.8
EV/EBITDA	16.4	15.0	14.5	13.1	11.3
Adjusted P/E	22.1	20.3	18.3	17.0	15.3
P/BV	4.7	4.1	3.7	3.3	3.0

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20E	FY21E	FY22E
Tax burden (Net profit/PBT)	70.4	69.7	77.0	77.0	77.0
Interest burden (PBT/EBIT)	129.4	142.1	135.0	135.7	135.1
EBIT margin (EBIT/Revenue)	17.8	15.6	15.2	14.6	15.0
Asset turnover (Revenue/Avg TA)	114.4	120.2	110.6	110.7	108.4
Leverage (Avg TA/Avg Equity)	121.7	123.1	122.3	121.3	120.8
Adjusted ROAE	21.4	20.4	20.2	19.4	19.4

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
YoY growth (%)					
Revenue	15.6	20.2	3.3	11.2	8.7
EBITDA	8.2	4.2	0.1	7.5	11.6
Adjusted EPS	6.9	8.4	11.0	7.8	11.1
Profitability & Return ratios (%)					
EBITDA margin	19.0	16.5	16.0	15.4	15.8
EBIT margin	17.8	15.6	15.2	14.6	15.0
Adjusted profit margin	16.3	14.6	15.8	15.3	15.6
Adjusted ROAE	22.1	21.2	20.8	20.1	20.1
ROCE	29.8	28.5	25.6	24.8	24.8
Working capital days (days)					
Receivables	22	31	31	31	31
Inventory	11	12	12	12	12
Payables	47	46	46	46	46
Ratios (x)					
Gross asset turnover	1.3	1.3	1.2	1.2	1.2
Current ratio	4.8	4.8	5.1	5.2	5.4
Net interest coverage ratio	3,411.2	1,052.8	961.7	937.3	951.7
Adjusted debt/equity	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)

Source: Company, BOBCAPS Research

BUY

TP: Rs 25,000 | ⮝ 17%

EICHER MOTORS | Automobiles | 20 January 2020

Rising earnings visibility – initiate with BUY

We see an improving volume outlook for Eicher Motors' Royal Enfield (RE) arm given rapid store expansion and lower-priced launches. Despite muted growth due to sticker shocks last year, we think RE has a long runway for growth on the back of premiumisation trends and a pickup in replacement demand from new product/platform launches. We expect a 10% volume CAGR for RE over FY20-FY22 with gradual EBITDA/vehicle improvement led by normalised opex and leverage. Initiate coverage with BUY; SOTP-based Mar'21 TP of Rs 25,000.

Navin Matta | Nishant Chowhan, CFA
research@bobcaps.in

Premiumisation, new launches to support long-term growth: RE appears to be the best play on premiumisation trends in 2Ws – we believe its penetration in premium 2Ws can continue to rise from current estimated levels of 18-20%. BS-VI led product refreshes and new platform launches can spur upgrades and replacements (RE's replacement mix at ~10% vs. 30-40% for mass 2W players).

Encouraging response to network/range extension: Encouraged by the fact that most RE studio stores are hitting breakeven volumes, the store count is being expanded from 500 to 800 by Mar'20. Recent launches '350X' and '350 S' are priced 6-7.5% lower than standard versions, driving higher footfalls.

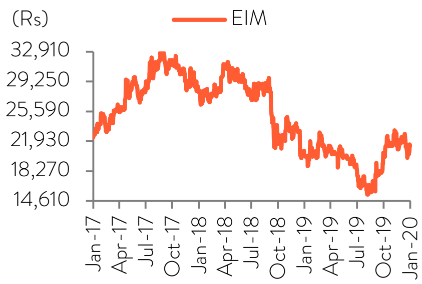
EBITDA/vehicle to rise steadily: We believe RE's lower-priced models will be margin-neutral as price cuts are largely led by de-contented offerings. On BS-VI transition, we estimate a manageable 6-8% price hike. Leverage and normalised opex should support stable EBITDA/veh in FY21 and improvement thereafter.

Recommend BUY: Current valuations of 25x FY21E EPS are 30% below the past five-year avg which is fair as RE is past its hyper-growth phase. Valuations look sustainable given a 16% cons. EPS CAGR forecast for FY20-FY22. Our SOTP target includes Rs 23,500 for RE (24x FY22E P/E) and Rs 1,500 for VECV.

Ticker/Price	EIM IN/Rs 21,292
Market cap	US$ 8.2bn
Shares o/s	27mn
3M ADV	US$ 45.5mn
52wk high/low	Rs 23,450/Rs 15,200
Promoter/FPI/DII	49%/32%/7%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS – CONSOLIDATED

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	89,650	97,971	96,026	112,737	127,776
EBITDA (Rs mn)	28,076	29,031	23,957	27,194	31,591
Adj. net profit (Rs mn)	21,797	22,203	20,811	23,374	27,871
Adj. EPS (Rs)	799.6	813.9	762.9	856.8	1,021.7
Adj. EPS growth (%)	27.0	1.8	(6.3)	12.3	19.2
Adj. ROAE (%)	31.0	24.9	19.6	18.7	18.9
Adj. P/E (x)	26.6	26.2	27.9	24.9	20.8
EV/EBITDA (x)	19.8	18.6	22.0	19.0	15.9

Source: Company, BOBCAPS Research

FIG 1 – SALES VOLUME SNAPSHOT

(Nos)	FY18	FY19	FY20E	FY21E	FY22E
Royal Enfield	**822,547**	**826,098**	**736,145**	**811,860**	**895,461**
YoY growth (%)	23	0	(11)	10	10
Domestic	801,229	805,273	694,145	763,560	839,916
YoY growth (%)	23	1	(14)	10	10
Exports	21,318	20,825	42,000	48,300	55,545
YoY growth (%)	39	(2)	102	15	15
VECV	**65,928**	**72,969**	**57,092**	**57,947**	**66,526**
YoY growth (%)	13	11	(22)	1	15
Domestic	56,927	62,959	50,704	50,704	58,309
YoY growth (%)	13	11	(19)	0	15
Exports	9,001	10,010	6,388	7,244	8,217
YoY growth (%)	12	11	(36)	13	13

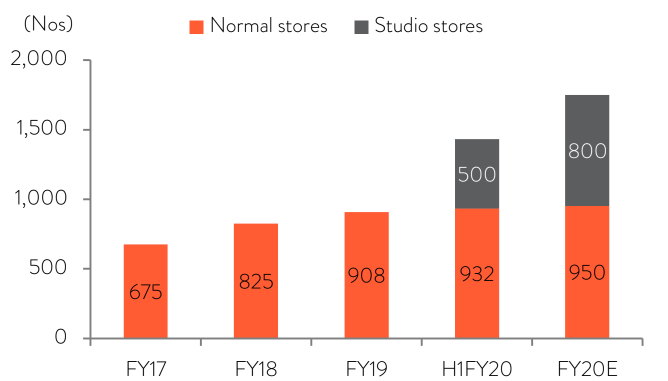
Source: SIAM, ET Autolytics, BOBCAPS Research

FIG 2 – HIGH OPEX PHASE LIKELY BEHIND US

(Rs mn)	FY16	FY19	FY16-19 CAGR (%)
Volume	**601,000**	**826,098**	**11**
Staff costs	**3,422**	**6,795**	**26**
Other Expenses	**6,916**	**11,078**	**17**
-Selling & distribution	715	1,942	40
-Freight Handling charges	880	1,431	18
-Travelling expenses	287	902	46

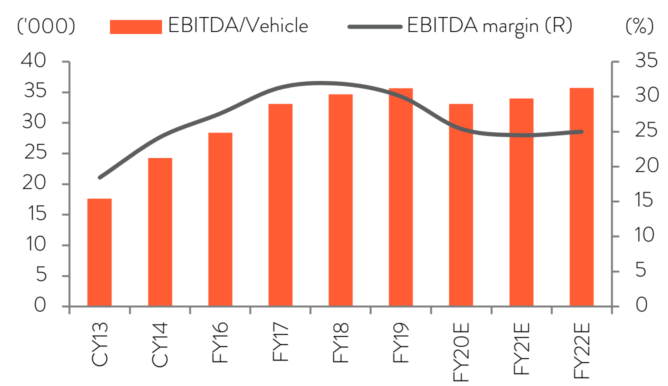
Source: Company, BOBCAPS Research | Note: Standalone Financials

FIG 3 – RE's STORE COUNT TREND



Source: Company, BOBCAPS Research

FIG 4 – RE'S EBITDA/VEHICLE TREND



Source: Company, BOBCAPS Research

FIG 5 – RE's PENETRATION IN DOMESTIC 2W PREMIUM BIKES

(mn)	FY11	FY18	FY25E
Total addressable households (for premium 2W)	23	65	89
Parc of premium bikes (12Y replacement)	8	23	40
Household penetration (%)	**35**	**35**	**45**
RE's parc	0.5	4.1	8.6
RE's share in premium bikes parc (%)	**7**	**18**	**22**

Source: Company, BCG report, SIAM, ET Autolytics, BOBCAPS Research

Valuation methodology

EIM currently trades at 25x FY21E EPS which is 30% below its past five-year average. We think the valuation discount is fair as RE is unlikely to witness another hyper-growth phase (volumes grew 4-5x over FY13-FY19). That said, we believe RE is the best play on the growing premiumisation in 2Ws and has scope to improve share in premium motorcycles, which should support steady long-term volume growth.

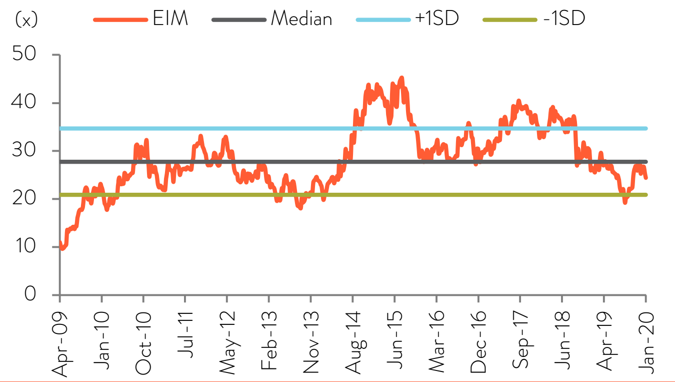
Our Mar'21 SOTP-based target price of Rs 25,000 for EIM assigns 24x FY22E EPS for the RE business (Rs 23,500), 8x FY22E EBITDA for VECV's EV (Rs 1,220) and Rs 280 for EIM's share of VECV's net cash for attributable share. Initiate with BUY.

FIG 6 – SOTP VALUATION

Business	Fair value (Rs/share)	Comments
Royal Enfield (RE)	23,500	24x FY22E EPS (ex-subs dividend)
EIM's share of VECV's EV	1,220	8x FY22E EBITDA (EIM's share at 54.4%)
EIM's share of VECV's net cash	280	EIM's share at 54.4%
Target price	**25,000**	

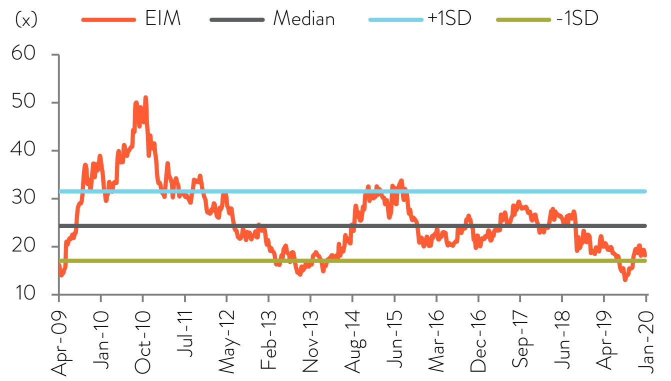
Source: BOBCAPS Research

FIG 7 – P/E MULTIPLE (ONE-YEAR FORWARD)



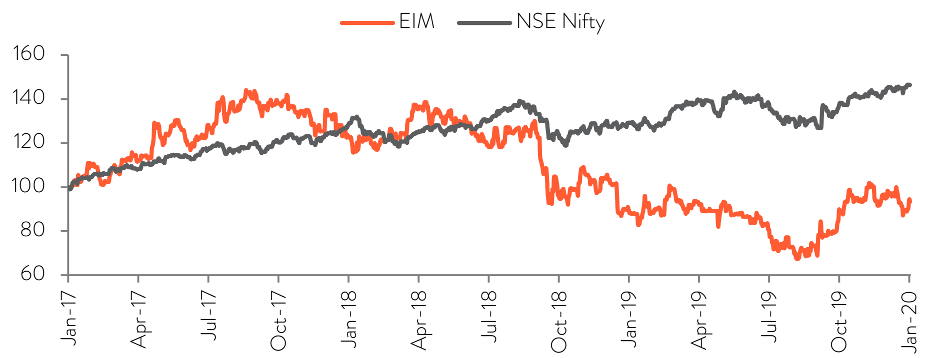
Source: Bloomberg, Company, BOBCAPS Research

FIG 8 – EV/EBITDA MULTIPLE (ONE-YEAR FORWARD)



Source: Bloomberg, Company, BOBCAPS Research

FIG 9 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- Aggressively priced model launches in the 350-500cc segments by international players such as Harley Davidson, Triumph etc could increase competitive intensity and hurt RE's volume growth outlook.
- Over the past few years, RE has been making significant investments to grow its exports business. Inability to ramp up volumes over the medium term will reflect negatively on EIM's execution capabilities.

FINANCIALS – CONSOLIDATED

Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue	**89,650**	**97,971**	**96,026**	**112,737**	**127,776**
EBITDA	28,076	29,031	23,957	27,194	31,591
Depreciation	2,233	3,003	3,658	4,466	5,274
EBIT	30,309	32,034	27,615	31,660	36,864
Net interest income/(expenses)	(53)	(73)	(73)	(73)	(73)
Other income/(expenses)	2,801	4,434	5,931	6,970	8,218
Exceptional items	(2,201)	(175)	0	0	0
EBT	28,591	30,389	26,157	29,625	34,461
Income taxes	9,359	10,770	6,154	6,965	8,135
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	2,566	2,584	808	714	1,544
Reported net profit	**19,597**	**22,027**	**20,811**	**23,374**	**27,871**
Adjustments	2,201	175	0	0	0
Adjusted net profit	**21,797**	**22,203**	**20,811**	**23,374**	**27,871**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Accounts payables	11,719	12,774	14,694	15,913	18,259
Other current liabilities	7,722	4,763	2,669	2,771	3,267
Provisions	763	807	807	807	807
Debt funds	1,508	1,868	1,868	1,868	1,868
Other liabilities	1,789	1,732	1,732	1,732	1,732
Equity capital	529	529	529	529	529
Reserves & surplus	69,772	88,658	105,533	124,453	147,120
Shareholders' fund	70,301	89,187	106,062	124,982	147,649
Total liabilities and equities	**93,802**	**111,129**	**127,831**	**148,072**	**173,581**
Cash and cash eq.	50,286	59,439	71,485	86,615	106,607
Accounts receivables	680	903	1,165	1,254	1,445
Inventories	3,946	6,334	6,408	7,226	8,461
Other current assets	3,909	4,055	4,033	4,202	4,567
Investments	17,643	19,439	20,439	21,939	23,939
Net fixed assets	15,017	18,746	22,088	24,622	26,348
CWIP	3,332	4,497	4,497	4,497	4,497
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(1,421)	(2,739)	(2,739)	(2,739)	(2,739)
Other assets	410	455	455	455	455
Total assets	**93,802**	**111,129**	**127,831**	**148,072**	**173,581**

Source: Company, BOBCAPS Research

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income + Depreciation	24,030	25,205	24,469	27,840	33,144
Interest expenses	53	73	73	73	73
Non-cash adjustments	0	0	0	0	0
Changes in working capital	4,974	(4,618)	(488)	245	1,051
Other operating cash flows	643	1,318	0	0	0
Cash flow from operations	**29,700**	**21,979**	**24,055**	**28,159**	**34,268**
Capital expenditures	(8,117)	(7,897)	(7,000)	(7,000)	(7,000)
Change in investments	(185)	(1,797)	(1,000)	(1,500)	(2,000)
Other investing cash flows	159	(102)	0	0	0
Cash flow from investing	**(8,142)**	**(9,796)**	**(8,000)**	**(8,500)**	**(9,000)**
Equities issued/Others	1	0	0	0	0
Debt raised/repaid	1,064	359	0	0	0
Interest expenses	(53)	(73)	(73)	(73)	(73)
Dividends paid	(3,482)	(3,958)	(3,936)	(4,455)	(5,203)
Other financing cash flows	(1,466)	642	0	0	0
Cash flow from financing	**(3,936)**	**(3,030)**	**(4,009)**	**(4,528)**	**(5,276)**
Changes in cash and cash eq.	**17,622**	**9,153**	**12,046**	**15,130**	**19,992**
Closing cash and cash eq.	**50,286**	**59,439**	**71,485**	**86,615**	**106,607**

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
Reported EPS	799.6	813.9	762.9	856.8	1,021.7
Adjusted EPS	799.6	813.9	762.9	856.8	1,021.7
Dividend per share	110.0	125.0	124.3	140.7	164.3
Book value per share	2,578.9	3,271.7	3,890.8	4,584.8	5,416.3

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
EV/Sales	6.2	5.5	5.5	4.6	3.9
EV/EBITDA	19.8	18.6	22.0	19.0	15.9
Adjusted P/E	26.6	26.2	27.9	24.9	20.8
P/BV	8.3	6.5	5.5	4.6	3.9

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20E	FY21E	FY22E
Tax burden (Net profit/PBT)	68.5	72.5	79.6	78.9	80.9
Interest burden (PBT/EBIT)	94.3	94.9	94.7	93.6	93.5
EBIT margin (EBIT/Revenue)	33.8	32.7	28.8	28.1	28.9
Asset turnover (Revenue/Avg TA)	95.6	88.2	75.1	76.1	73.6
Leverage (Avg TA/Avg Equity)	134.4	125.3	121.1	119.0	118.0
Adjusted ROAE	31.0	24.9	19.6	18.7	18.9

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
YoY growth (%)					
Revenue	27.5	9.3	(2.0)	17.4	13.3
EBITDA	29.1	3.4	(17.5)	13.5	16.2
Adjusted EPS	27.0	1.8	(6.3)	12.3	19.2
Profitability & Return ratios (%)					
EBITDA margin	31.3	29.6	24.9	24.1	24.7
EBIT margin	33.8	32.7	28.8	28.1	28.9
Adjusted profit margin	24.3	22.7	21.7	20.7	21.8
Adjusted ROAE	31.0	24.9	19.6	18.7	18.9
ROCE	30.4	24.4	19.3	18.4	18.6
Working capital days (days)					
Receivables	3	3	4	4	4
Inventory	31	46	46	46	46
Payables	48	48	56	52	52
Ratios (x)					
Gross asset turnover	4.2	3.5	2.7	2.7	2.6
Current ratio	1.0	2.2	2.4	2.4	2.3
Net interest coverage ratio	567.6	437.0	376.7	431.9	502.9
Adjusted debt/equity	0.0	0.0	0.0	0.0	0.0

Source: Company, BOBCAPS Research

REDUCE
TP: Rs 2,575 | ⮝ 5%

HERO MOTOCORP | Automobiles | 20 January 2020

Multiple challenges – REDUCE

Hero MotoCorp (HMCL) could see a 10-15% cost rise on >85% of its portfolio due to BS-VI changeover. Competitive pressures will also pinch as peers have a diversified mix and hence face lower transition impact. Recent scooter/ premium bike launches haven't had a meaningful impact. Saturation in the 2W market over 5-10 years further poses a structural risk for HMCL. We expect a low 5% volume CAGR and 100bps drop in EBITDA margin over FY20-FY22 – resume coverage with REDUCE and a Mar'21 TP of Rs 2,575.

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Headwinds from regulatory norm change: We estimate a 10-15% cost increase on 85-90% of HMCL's product portfolio from BS-VI compliance, which will weigh on volume growth and margins. The company faces added competitive pressure as peers have a more diversified product mix and are therefore better placed to weather the shift to new emission norms. While HMCL has done well to protect market share in the entry-level segment, this too may be at risk if peers adopt lower cost technologies (e-carburettors) for moving to BS-VI.

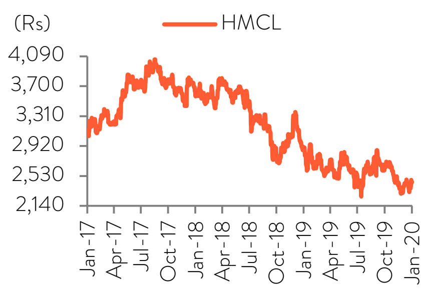
Limited progress on product/geographic diversification: HMCL has made multiple attempts to grow its presence in scooters and premium bikes, but a slew of launches in these segments have met with limited success. Its scooter market share is currently at a decadal low of 8%. Export volumes too are lower than FY16 levels even as Bajaj Auto/TVS continue to witness strong growth. With saturation risk in 2Ws over the next 5-10 years, a diversified mix is essential.

Resume with REDUCE: Current valuations at 15x FY21E EPS are at –1 SD of the five-year average. We bake in a 6% earnings CAGR over FY20-FY22 – underwhelming after two years of decline. Near-term headwinds and an inability to diversify beyond 125cc motorcycles drives our cautious view. Resume with REDUCE and a TP of Rs 2,575 based on 14x FY22E EPS.

Ticker/Price	HMCL IN/Rs 2,454
Market cap	US$ 6.9bn
Shares o/s	200mn
3M ADV	US$ 27.8mn
52wk high/low	Rs 3,023/Rs 2,226
Promoter/FPI/DII	35%/36%/18%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS – STANDALONE

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	322,305	336,505	311,487	353,170	379,635
EBITDA (Rs mn)	52,802	49,301	44,387	44,480	49,781
Adj. net profit (Rs mn)	36,974	33,848	32,490	32,905	36,766
Adj. EPS (Rs)	185.1	169.5	162.7	164.7	184.1
Adj. EPS growth (%)	9.5	(8.5)	(4.0)	1.3	11.7
Adj. ROAE (%)	31.4	26.3	22.2	20.8	21.4
Adj. P/E (x)	13.3	14.5	15.1	14.9	13.3
EV/EBITDA (x)	8.4	8.7	9.8	9.9	8.8

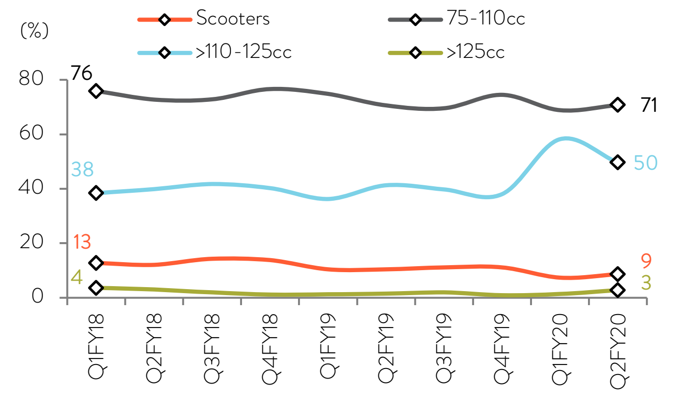
Source: Company, BOBCAPS Research

FIG 1 – SALES VOLUME SNAPSHOT

(Nos)	FY18	FY19	FY20E	FY21E	FY22E
Total	**7,587,193**	**7,820,861**	**6,879,634**	**7,164,701**	**7,574,803**
YoY growth (%)	14	3	(12)	4	6
Domestic	**7,382,718**	**7,612,805**	**6,685,725**	**6,954,882**	**7,347,763**
YoY growth (%)	14	3	(12)	4	6
Motorcycles	6,499,051	6,893,718	6,181,562	6,405,993	6,743,984
YoY growth (%)	14	6	(10)	4	5
Scooters	883,667	719,087	504,162	548,889	603,778
YoY growth (%)	12	(19)	(30)	9	10
Exports	**204,475**	**208,056**	**193,910**	**209,819**	**227,041**
YoY growth (%)	12	2	(7)	8	8

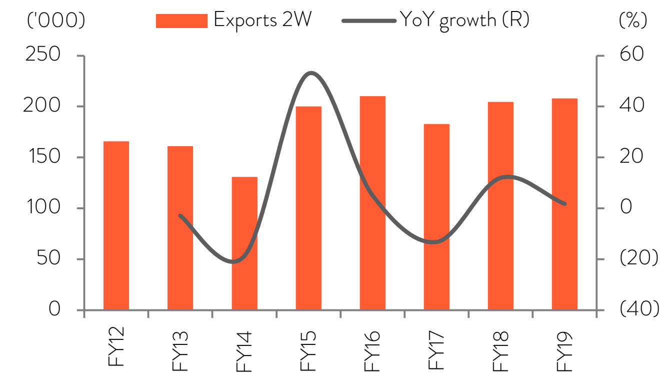
Source: SIAM, ET Autolytics, BOBCAPS Research

FIG 2 – SEGMENTAL MARKET SHARE TRENDS



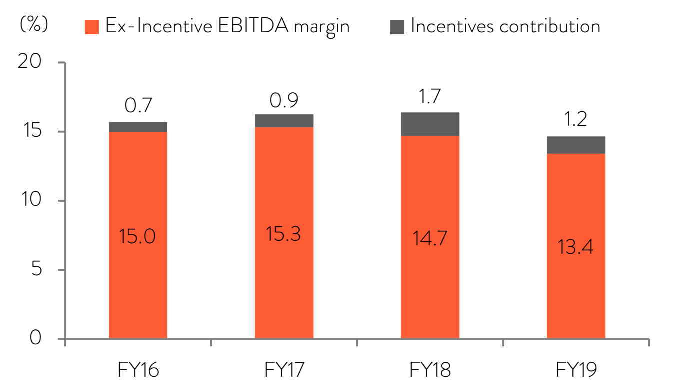
Source: SIAM, ET Autolytics, BOBCAPS Research

FIG 3 – EXPORT VOLUME TREND



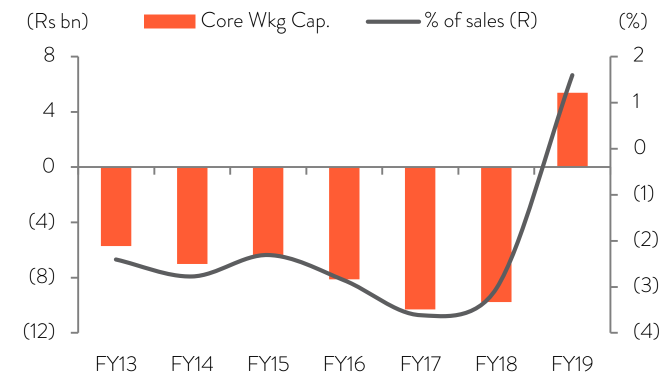
Source: SIAM, ET Autolytics, BOBCAPS Research

FIG 4 – EBITDA MARGIN TREND



Source: Company, BOBCAPS Research

FIG 5 – CORE WORKING CAPITAL



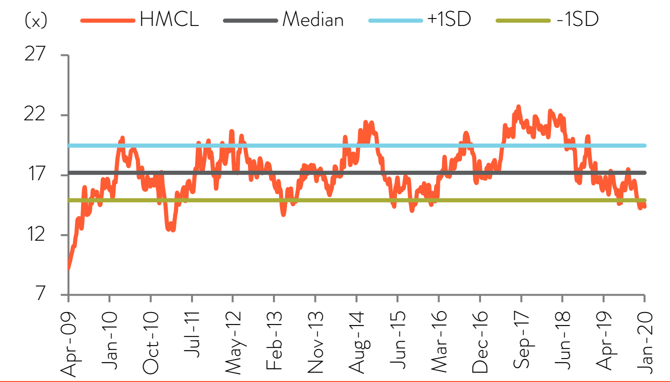
Source: Company, BOBCAPS Research

Valuation methodology

HMCL currently trades at ~15x FY21E EPS. Valuations appear inexpensive but are reflective of near-term headwinds and the risk of growth stagnation over the mid-to-long term. We value the stock at 14x FY22E EPS, ~20% discount to is past five-year median valuations, translating to a Mar'21 target price of Rs 2,575.

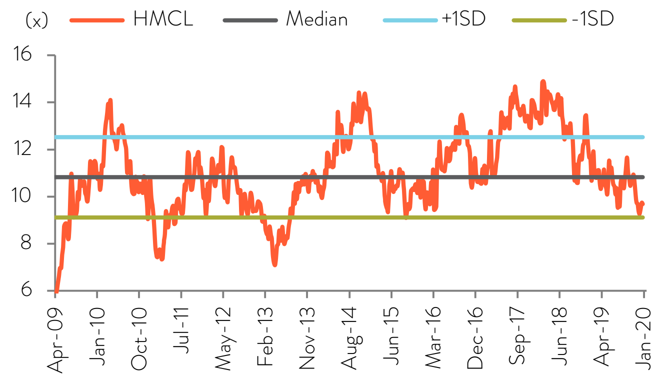
Headwinds from BS-VI migration and competitive stress are likely to cap earnings growth at a 6% CAGR for FY20-FY22. Over the mid-to-long term, we see structural demand concerns from potential saturation in the 2W market. Resume coverage with REDUCE.

FIG 6 – P/E MULTIPLE (ONE-YEAR FORWARD)



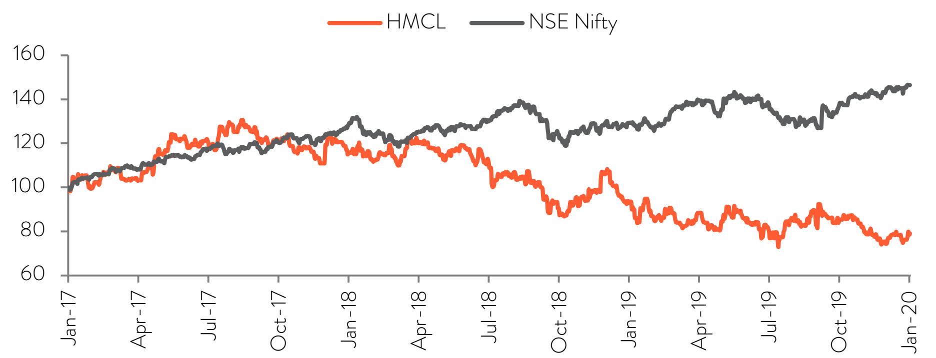
Source: Bloomberg, BOBCAPS Research, Company

FIG 7 – EV/EBITDA MULTIPLE (ONE-YEAR FORWARD)



Source: Bloomberg, BOBCAPS Research, Company

FIG 8 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- A sharp rise in financing ratio for 2Ws along with favourable credit terms such as extension of loan tenures may partly blunt the impact of BS-VI cost increase. This may reduce the expected negative impact on 2W demand.
- Above-expected pickup in rural demand on the back of good monsoons would disproportionately benefit HMCL given its higher volume mix from these markets – posing an upside risk to our volume estimates.
- Further declines in commodity costs could support margins despite tepid volume growth, though this may be priced away over time due to the elevated competitive intensity.

FINANCIALS – STANDALONE

Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue	**322,305**	**336,505**	**311,487**	**353,170**	**379,635**
EBITDA	52,802	49,301	44,387	44,480	49,781
Depreciation	5,556	6,020	8,541	8,559	9,328
EBIT	47,246	43,281	35,845	35,921	40,454
Net interest income/(expenses)	(63)	(86)	(215)	(215)	(237)
Other income/(expenses)	5,258	6,912	7,119	7,589	8,159
Exceptional items	0	0	5,276	0	0
EBT	52,442	50,107	48,026	43,296	48,376
Income taxes	15,468	16,259	10,260	10,391	11,610
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	**36,974**	**33,848**	**37,766**	**32,905**	**36,766**
Adjustments	0	0	(5,276)	0	0
Adjusted net profit	**36,974**	**33,848**	**32,490**	**32,905**	**36,766**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Accounts payables	33,188	33,553	31,231	35,511	38,199
Other current liabilities	9,647	7,160	7,260	7,360	7,460
Provisions	1,747	1,762	1,862	1,962	2,062
Debt funds	0	0	0	0	0
Other liabilities	0	0	0	0	0
Equity capital	399	400	400	400	400
Reserves & surplus	117,289	128,172	146,072	157,943	171,338
Shareholders' fund	117,689	128,571	146,472	158,343	171,738
Total liabilities and equities	**162,271**	**171,047**	**186,825**	**203,177**	**219,460**
Cash and cash eq.	66,456	45,333	52,287	55,915	64,672
Accounts receivables	15,202	28,216	27,943	31,773	34,178
Inventories	8,236	10,724	9,862	11,214	12,063
Other current assets	17,556	24,817	29,317	31,917	34,517
Investments	10,209	15,717	16,718	17,718	18,717
Net fixed assets	46,545	46,186	56,063	60,004	60,677
CWIP	3,184	5,419	0	0	0
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(5,117)	(5,365)	(5,365)	(5,365)	(5,365)
Other assets	0	0	0	0	0
Total assets	**162,271**	**171,047**	**186,825**	**203,177**	**219,460**

Source: Company, BOBCAPS Research

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Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income + Depreciation	42,530	39,869	46,307	41,463	46,094
Interest expenses	63	86	215	215	237
Non-cash adjustments	973	248	0	0	0
Changes in working capital	(27)	(24,871)	(5,488)	(3,301)	(2,966)
Other operating cash flows	0	0	0	0	0
Cash flow from operations	**43,539**	**15,333**	**41,034**	**38,377**	**43,364**
Capital expenditures	(6,679)	(7,895)	(13,000)	(12,500)	(10,000)
Change in investments	(1,551)	(5,508)	(1,000)	(1,000)	(1,000)
Other investing cash flows	0	0	0	0	0
Cash flow from investing	**(8,230)**	**(13,404)**	**(14,000)**	**(13,500)**	**(11,000)**
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	0	0	0	0	0
Interest expenses	(63)	(86)	(215)	(215)	(237)
Dividends paid	(22,197)	(20,333)	(19,865)	(21,034)	(23,371)
Other financing cash flows	1,799	(2,634)	0	0	0
Cash flow from financing	**(20,460)**	**(23,052)**	**(20,080)**	**(21,249)**	**(23,607)**
Changes in cash and cash eq.	**14,848**	**(21,123)**	**6,954**	**3,629**	**8,757**
Closing cash and cash eq.	**66,456**	**45,333**	**52,287**	**55,915**	**64,672**

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
Reported EPS	185.1	169.5	162.7	164.7	184.1
Adjusted EPS	185.1	169.5	162.7	164.7	184.1
Dividend per share	95.0	87.0	85.0	90.0	100.0
Book value per share	589.3	643.7	733.3	792.7	859.8

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
EV/Sales	1.4	1.3	1.4	1.2	1.1
EV/EBITDA	8.4	8.7	9.8	9.9	8.8
Adjusted P/E	13.3	14.5	15.1	14.9	13.3
P/BV	4.2	3.8	3.3	3.1	2.9

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20E	FY21E	FY22E
Tax burden (Net profit/PBT)	70.5	67.6	78.6	76.0	76.0
Interest burden (PBT/EBIT)	111.0	115.8	134.0	120.5	119.6
EBIT margin (EBIT/Revenue)	14.7	12.9	11.5	10.2	10.7
Asset turnover (Revenue/Avg TA)	211.3	201.9	174.1	181.1	179.7
Leverage (Avg TA/Avg Equity)	139.4	135.4	130.1	127.9	128.0
Adjusted ROAE	31.4	26.3	22.2	20.8	21.4

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
YoY growth (%)					
Revenue	13.1	4.4	(7.4)	13.4	7.5
EBITDA	13.9	(6.6)	(10.0)	0.2	11.9
Adjusted EPS	9.5	(8.5)	(4.0)	1.3	11.7
Profitability & Return ratios (%)					
EBITDA margin	16.4	14.7	14.3	12.6	13.1
EBIT margin	14.7	12.9	11.5	10.2	10.7
Adjusted profit margin	11.5	10.1	10.4	9.3	9.7
Adjusted ROAE	31.4	26.3	22.2	20.8	21.4
ROCE	42.8	37.5	28.3	26.6	27.4
Working capital days (days)					
Receivables	17	31	33	33	33
Inventory	9	12	12	12	12
Payables	38	36	37	37	37
Ratios (x)					
Gross asset turnover	2.6	2.4	2.0	2.1	2.1
Current ratio	2.4	2.6	3.0	2.9	3.0
Net interest coverage ratio	755.9	503.3	166.7	167.1	171.1
Adjusted debt/equity	(0.6)	(0.4)	(0.4)	(0.4)	(0.4)

Source: Company, BOBCAPS Research

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ADD
TP: Rs 625 | ⮝ 10%

MAHINDRA & MAHINDRA | Automobiles | 20 January 2020

Concerns adequately priced in – ADD

In our view, M&M's (MM) current valuations reflect (1) double-digit volume declines across both auto and tractor segments for FY21 on an already low base, and (2) elevated losses at subsidiaries. We believe the strong new UV pipeline and tailwinds from a good monsoon season would restrict the drop in volumes. The company is looking to bring down losses at Ssangyong, the benefits of which will likely be visible from FY21. Its core business is trading at a reasonable 11x FY21E EPS – we resume coverage with ADD; Mar'21 TP Rs 625.

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Auto segment faces challenges but concerns appear overdone: Heavier costs toward upcoming BS-VI changeover and declining UV market share are key concerns for MM. However, the company's preparedness with a full lineup of petrol variants to address the market shift away from diesel and a raft of planned launches should partially mitigate the risk of a steep volume decline.

Improving outlook for tractors: MM's tractor volumes have fallen 10% YoY in FY20 YTD. Management's –7% to –8% YoY guidance for FY20 implies flat-to-marginally positive growth for the residual period. We expect demand to recover in FY21 aided by the healthy monsoons and pickup in farm incomes.

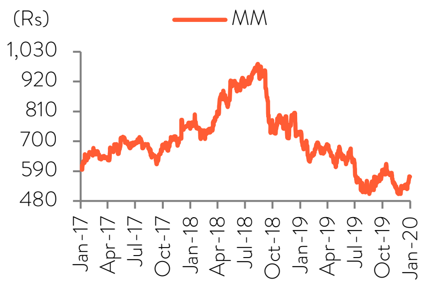
Focused on containing subsidiary losses: MM's auto subsidiaries remain a drag on consolidated earnings. Implied EBIT loss in its auto/farm arms was Rs 13bn in H1FY20, largely due to weakness in Ssangyong. Management aims to cut losses by expanding the export footprint and pruning raw material cost by 2-3%.

Concerns priced in – ADD: MM's core auto business is trading at 11x FY21E EPS which we believe prices in muted earnings expectations for FY20-FY22. We resume coverage with ADD and an SOTP-based target of Rs 625, set at 12.5x (–1SD) FY22E P/E for the core business and Rs 201/sh for subsidiaries.

Ticker/Price	MM IN/Rs 569
Market cap	US$ 9.9bn
Shares o/s	1,242mn
3M ADV	US$ 27.3mn
52wk high/low	Rs 738/Rs 503
Promoter/FPI/DII	20%/34%/24%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS – MM+MVML

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	475,774	528,482	487,800	519,725	569,877
EBITDA (Rs mn)	70,434	75,301	67,774	67,587	76,880
Adj. net profit (Rs mn)	41,896	54,239	43,420	42,530	49,241
Adj. EPS (Rs)	33.7	43.7	35.0	34.2	39.6
Adj. EPS growth (%)	24.1	29.5	(19.9)	(2.1)	15.8
Adj. ROAE (%)	14.6	16.6	11.7	10.3	11.1
Adj. P/E (x)	16.9	13.0	16.3	16.6	14.4
EV/EBITDA (x)	9.8	9.1	9.8	9.8	8.5

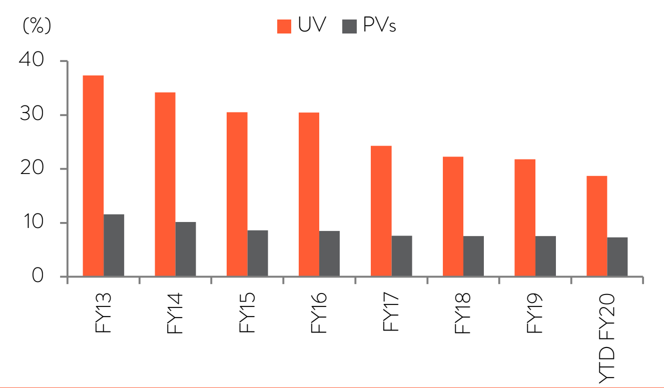
Source: Company, BOBCAPS Research

FIG 1 – SALES VOLUME SNAPSHOT

(Nos)	FY18	FY19	FY20E	FY21E	FY22E
Grand total	**866,185**	**938,902**	**844,211**	**846,459**	**905,674**
YoY growth (%)	13	8	(10)	0	7
Automotive	**548,602**	**608,466**	**539,996**	**527,033**	**570,276**
YoY growth (%)	8	11	(11)	(2)	8
Domestic	**520,375**	**569,870**	**507,575**	**491,370**	**531,761**
YoY growth (%)	11	10	(11)	(3)	8
PV	248,942	254,701	214,963	215,117	232,772
YoY growth (%)	11	29	(55)	0	5
CV	216,808	248,470	224,913	211,939	229,529
YoY growth (%)	20	15	(9)	(6)	8
3W	54,625	66,699	67,699	64,315	69,460
YoY growth (%)	4	22	1	(5)	8
Exports	**28,227**	**38,596**	**32,421**	**35,663**	**38,516**
YoY growth (%)	(24)	37	(16)	10	8
Tractors Total	**317,583**	**330,436**	**304,215**	**319,426**	**335,398**
YoY growth (%)	21	4	(8)	5	5
Domestic	**302,118**	**316,742**	**292,986**	**307,636**	**323,017**
YoY growth (%)	22	5	(8)	5	5
Exports	**15,465**	**13,694**	**11,229**	**11,791**	**12,380**
YoY growth (%)	6	(11)	(18)	5	5

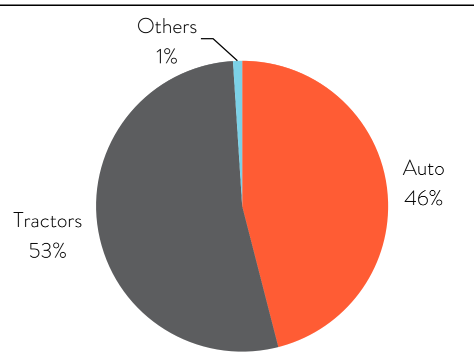
Source: SIAM, ET Autolytics, BOBCAPS Research

FIG 2 – MM'S MARKET SHARE HAS FALLEN SHARPLY



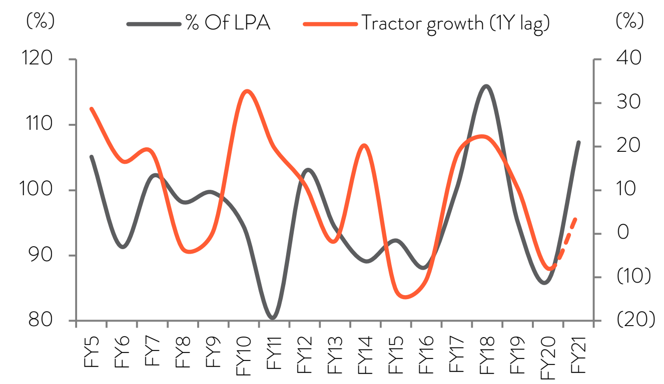
Source: SIAM, ET Autolytics, BOBCAPS Research

FIG 3 – TRACTORS HAVE >50% EBIT SHARE



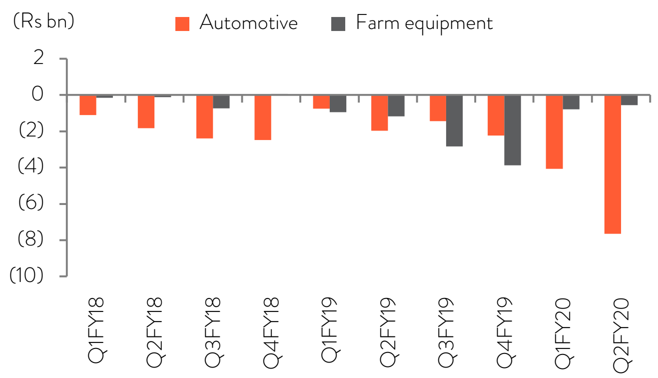
Source: Company, BOBCAPS Research. Note- For FY19

FIG 4 – MONSOON VS. TRACTOR SALES TREND



Source: SIAM, Indian Meteorological Department, BOBCAPS Research

FIG 5 – AUTO/TRACTOR EBIT TREND



Source: Company, BOBCAPS Research

Valuation methodology

MM's core business (ex-value from subsidiaries) currently trades at 11x FY21E EPS. We think valuations are factoring in a sharp earnings decline led by a double-digit volume drop across operating segments in FY21, which we believe is unlikely. Cyclical recovery in PVs and an improving outlook for tractors should partly offset volume/margin pressures from BS-VI migration. MM is also looking to contain subsidiary losses which have been a drag on consolidated earnings.

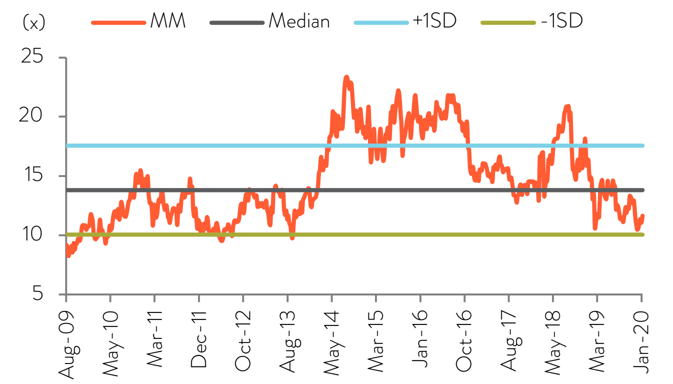
We value the stock on SOTP basis as follows: (1) core business at 12.5x FY22E EPS (Rs 424/sh) which is at –1 SD to the past five-year average, and (2) MM's stake in listed subsidiaries at Rs 201/sh based on 35% holding company discount to CMP. Resume coverage with ADD.

FIG 6 – SOTP VALUATION

Business	Fair Value (Rs)	Comment
Core business	424	12.5x FY22E Core EPS
Value of subsidiaries	201	35% hold-co discount
Total	**625**	

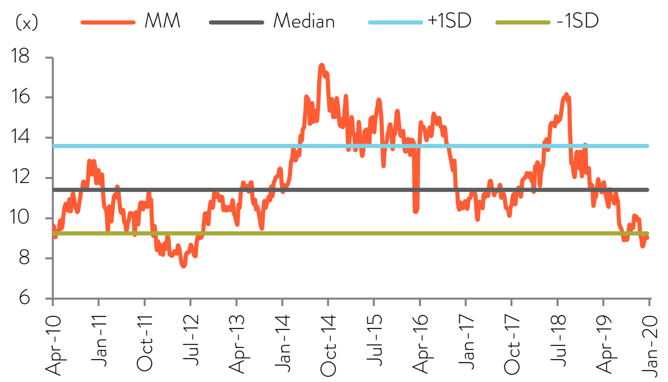
Source: Company, BOBCAPS Research

FIG 7 – P/E MULTIPLE (ONE-YEAR FORWARD)



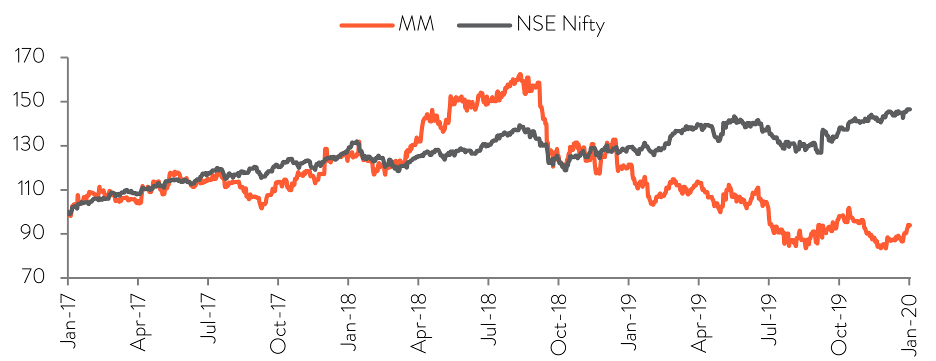
Source: Bloomberg, BOBCAPS Research, Company

FIG 8 – EV/EBITDA MULTIPLE (ONE-YEAR FORWARD)



Source: Bloomberg, BOBCAPS Research, Company

FIG 9 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- A significant shift away from diesel vehicles even in higher powered engine segments (>1.5L) could dent MM's UV market share and volumes, at least in the short term.
- Continued high losses in subsidiaries and recurring investments therein will weaken MM's consolidated earnings/return ratios and keep valuations depressed.

FINANCIALS – MM+MVML

Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue	**475,774**	**528,482**	**487,800**	**519,725**	**569,877**
EBITDA	70,434	75,301	67,774	67,587	76,880
Depreciation	16,254	20,030	23,658	25,467	27,354
EBIT	54,181	55,271	44,116	42,120	49,526
Net interest income/(expenses)	(1,882)	(1,467)	(1,287)	(1,287)	(1,287)
Other income/(expenses)	9,517	16,303	15,846	16,639	18,302
Exceptional items	4,336	(227)	13,671	0	0
EBT	61,816	70,106	58,675	57,472	66,542
Income taxes	19,919	15,867	15,256	14,943	17,301
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	**46,232**	**54,012**	**57,090**	**42,530**	**49,241**
Adjustments	(4,336)	227	(13,671)	0	0
Adjusted net profit	**41,896**	**54,239**	**43,420**	**42,530**	**49,241**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Accounts payables	93,737	103,607	96,224	102,521	112,414
Other current liabilities	37,618	38,713	35,482	37,805	41,453
Provisions	15,687	16,151	14,634	15,592	17,096
Debt funds	32,142	26,802	26,802	26,802	26,802
Other liabilities	4,679	6,062	6,062	6,062	6,062
Equity capital	5,950	5,958	5,958	5,958	5,958
Reserves & surplus	298,924	343,979	389,034	420,944	458,149
Shareholders' fund	304,874	349,937	394,992	426,902	464,107
Total liabilities and equities	**488,736**	**541,272**	**574,196**	**615,684**	**667,935**
Cash and cash eq.	68,616	70,746	79,028	77,948	84,933
Accounts receivables	30,984	38,119	34,747	37,022	40,594
Inventories	33,271	47,631	44,102	46,989	51,523
Other current assets	47,693	48,700	43,902	46,775	51,289
Investments	154,624	173,836	193,836	213,836	233,836
Net fixed assets	130,070	144,967	161,309	175,842	188,488
CWIP	0	0	0	0	0
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(4,557)	(7,896)	(7,896)	(7,896)	(7,896)
Other assets	28,035	25,168	25,168	25,168	25,168
Total assets	**488,736**	**541,272**	**574,196**	**615,684**	**667,935**

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income + Depreciation	62,486	74,042	80,748	67,996	76,595
Interest expenses	(1,882)	(1,467)	(1,287)	(1,287)	(1,287)
Non-cash adjustments	3,862	7,900	(12,384)	1,287	1,287
Changes in working capital	13,822	(11,074)	(432)	1,544	2,425
Other operating cash flows	4,113	1,156	13,671	0	0
Cash flow from operations	**82,400**	**70,557**	**80,317**	**69,540**	**79,020**
Capital expenditures	(28,564)	(34,928)	(40,000)	(40,000)	(40,000)
Change in investments	(23,389)	(19,212)	(20,000)	(20,000)	(20,000)
Other investing cash flows	(3,108)	6,949	0	0	0
Cash flow from investing	**(55,062)**	**(47,190)**	**(60,000)**	**(60,000)**	**(60,000)**
Equities issued/Others	2,982	8	0	0	0
Debt raised/repaid	(6,860)	(5,339)	0	0	0
Interest expenses	0	0	0	0	0
Dividends paid	(10,545)	(12,035)	(12,035)	(10,620)	(12,035)
Other financing cash flows	(1,006)	3,078	0	0	0
Cash flow from financing	**(15,430)**	**(14,288)**	**(12,035)**	**(10,620)**	**(12,035)**
Changes in cash and cash eq.	**11,909**	**9,079**	**8,281**	**(1,080)**	**6,985**
Closing cash and cash eq.	**65,509**	**77,695**	**79,028**	**77,948**	**84,933**

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
Reported EPS	37.2	43.5	46.0	34.2	39.6
Adjusted EPS	33.7	43.7	35.0	34.2	39.6
Dividend per share	7.5	8.5	8.5	7.5	8.5
Book value per share	245.5	281.7	318.0	343.7	373.7

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
EV/Sales	1.4	1.3	1.4	1.3	1.2
EV/EBITDA	9.8	9.1	9.8	9.8	8.5
Adjusted P/E	16.9	13.0	16.3	16.6	14.4
P/BV	2.3	2.0	1.8	1.7	1.5

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20E	FY21E	FY22E
Tax burden (Net profit/PBT)	74.8	77.0	97.3	74.0	74.0
Interest burden (PBT/EBIT)	114.1	126.8	133.0	136.4	134.4
EBIT margin (EBIT/Revenue)	11.4	10.5	9.0	8.1	8.7
Asset turnover (Revenue/Avg TA)	97.3	97.6	85.0	84.4	85.3
Leverage (Avg TA/Avg Equity)	1.6	1.5	1.5	1.4	1.4
Adjusted ROAE	14.6	16.6	11.7	10.3	11.1

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
YoY growth (%)					
Revenue	15.0	11.1	(7.7)	6.5	9.6
EBITDA	30.3	6.9	(10.0)	(0.3)	13.8
Adjusted EPS	24.1	29.5	(19.9)	(2.1)	15.8
Profitability & Return ratios (%)					
EBITDA margin	14.8	14.2	13.9	13.0	13.5
EBIT margin	11.4	10.5	9.0	8.1	8.7
Adjusted profit margin	8.8	10.3	8.9	8.2	8.6
Adjusted ROAE	14.6	16.6	11.7	10.3	11.1
ROCE	19.8	20.1	15.0	13.4	14.4
Working capital days (days)					
Receivables	23	26	26	26	26
Inventory	32	41	41	40	41
Payables	84	83	84	83	83
Ratios (x)					
Gross asset turnover	3.8	3.8	3.2	3.1	3.1
Current ratio	1.2	1.3	1.4	1.3	1.3
Net interest coverage ratio	28.8	37.7	34.3	32.7	38.5
Adjusted debt/equity	0.1	0.1	0.1	0.1	0.1

Source: Company, BOBCAPS Research

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BUY
TP: Rs 8,900 | ⮝ 18%

MARUTI SUZUKI | Automobiles | 20 January 2020

Earnings recovery ahead; valuations sustainable – BUY

Maruti (MSIL) is well placed to benefit from the anticipated cyclical demand upturn in PVs given its strong franchise and the fact that 8 of its 14 models (~70% of volumes) have already migrated to BS-VI. After two years of earnings decline, we expect a sharp recovery (25% CAGR over FY20-FY22) aided by operating leverage and lower discounts. Valuations at 28x FY21E EPS are not cheap but should sustain with earnings recovery, in our view. Resume coverage with BUY and a Mar'21 TP of Rs 8,900.

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PV demand showing signs of recovery: Festive demand in Oct'19 spurred positive PV retail sales growth and sharply drew down system inventory. Notwithstanding some bunching effect, demand for PVs appears to have bottomed out. With a palatable BS-VI cost increase (for petrol models) and a low base, we expect an ~8% CAGR in MSIL's PV volumes over FY20-FY22. Operating leverage from volume recovery should aid margins together with lower discounts.

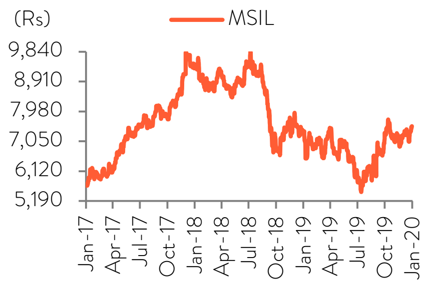
Rising competition in UVs could hurt market share: The strong appetite for UVs is bringing in fresh competition. MSIL is underrepresented in UVs which form ~25% of its volumes and it has 33% market share. Higher competition and limited presence in this space may fuel some market share loss for the company, but with an anticipated PV industry recovery, the net impact should be low. Concerns over MSIL's exit from diesels (~22% of mix) appear unwarranted as the company can shift its UV models back to diesel (~13% of mix) if required. In smaller car segments, the mix should move to petrol which will benefit MSIL.

Valuation premium sustainable: After two years of weak earnings, we forecast a strong 25% earnings CAGR over FY20-FY22. Valuations remain elevated but look sustainable considering the company's solid franchise and robust earnings outlook. Resume coverage with BUY and a TP of Rs 8,900 based on 27x FY22E EPS.

Ticker/Price	MSIL IN/Rs 7,520
Market cap	US$ 32.0bn
Shares o/s	302mn
3M ADV	US$ 89.2mn
52wk high/low	Rs 7,759/Rs 5,446
Promoter/FPI/DII	56%/23%/15%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS – STANDALONE

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	797,627	860,203	808,999	899,018	1,001,933
EBITDA (Rs mn)	120,615	110,473	86,956	108,232	133,877
Adj. net profit (Rs mn)	79,002	75,342	63,924	80,229	99,711
Adj. EPS (Rs)	261.6	249.5	211.7	265.7	330.2
Adj. EPS growth (%)	7.5	(4.6)	(15.2)	25.5	24.3
Adj. ROAE (%)	19.8	16.9	13.1	15.1	17.1
Adj. P/E (x)	28.7	30.1	35.5	28.3	22.8
EV/EBITDA (x)	16.9	17.8	22.1	17.6	13.9

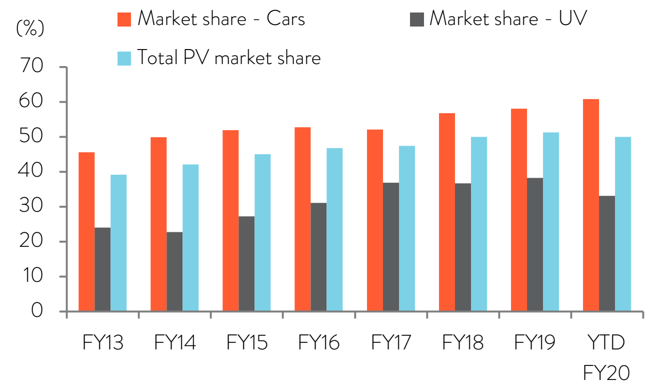
Source: Company, BOBCAPS Research

FIG 1 – SALES VOLUME SNAPSHOT

(Nos)	FY18	FY19	FY20E	FY21E	FY22E
Total sales	**1,779,574**	**1,862,172**	**1,636,030**	**1,764,496**	**1,907,290**
YoY growth (%)	13	5	(12)	8	8
Domestic sales	**1,653,500**	**1,753,429**	**1,529,809**	**1,648,191**	**1,779,786**
YoY growth (%)	14	6	(13)	8	8
Exports	**126,074**	**108,743**	**106,221**	**116,305**	**127,504**
YoY growth (%)	2	(14)	(2)	9	10

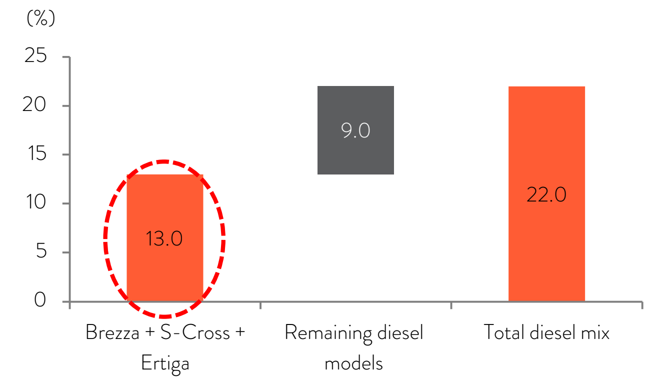
Source: Company, BOBCAPS Research

FIG 2 – MSIL'S MARKET SHARE TRENDS



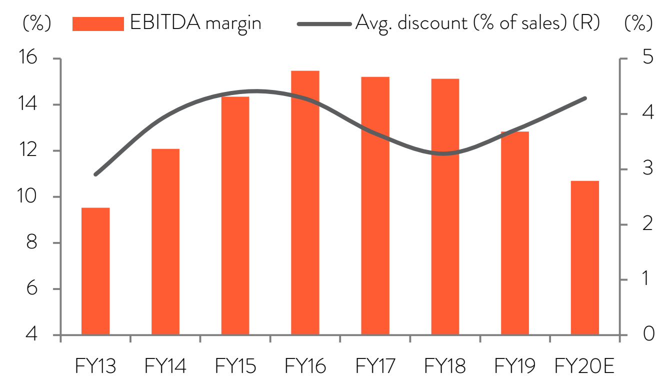
Source: SIAM, ET Autolytics, BOBCAPS Research

FIG 3 – DIESEL MIX IN MSIL'S PRODUCT PORTFOLIO



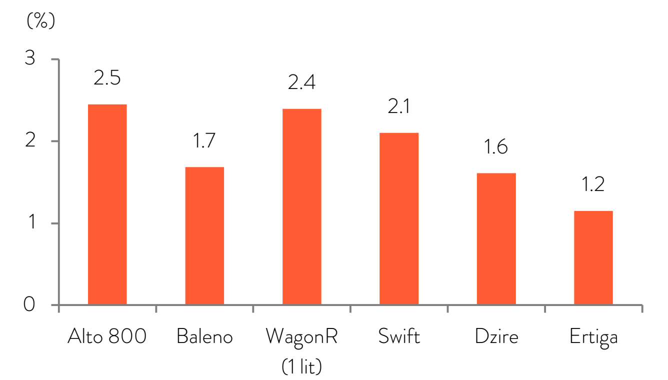
Source: Industry, BOBCAPS Research

FIG 4 – EBITDA MARGIN AND AVERAGE DISCOUNTS



Source: Company, BOBCAPS Research

FIG 5 – MODEL-WISE PRICE HIKE FOR BS-VI VEHICLES (PETROL VARIANTS)



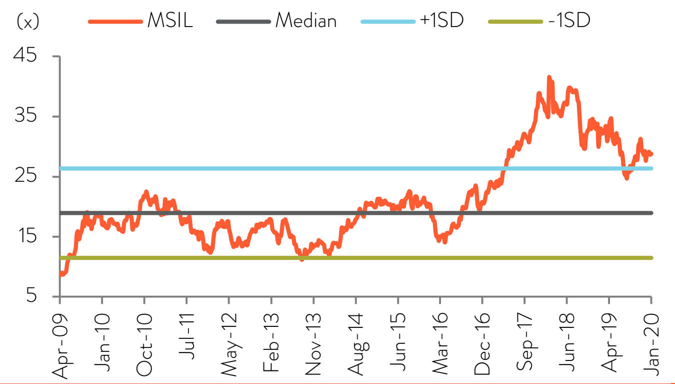
Source: Company, BOBCAPS Research

Valuation methodology

MSIL's previous strong earnings growth phase was led by market share gains and margin improvement in an otherwise modest growth environment for the industry. But with market share already at ~50%, the company's volume growth is unlikely to outpace the industry, especially given its limited presence in the fast-growing UV segment. We estimate an 8% CAGR in volumes over FY20-FY22. Margins on the other hand are at a seven-year low and can rise with operating leverage and lower discounts.

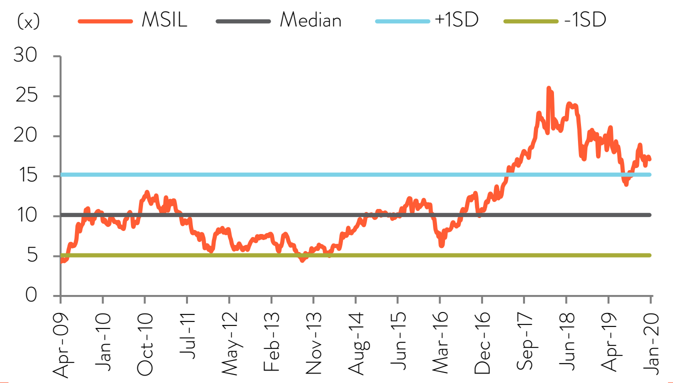
MSIL is currently trading at 27x FY21E EPS which is similar to its past five-year average. We believe valuations should largely sustain in an earnings recovery phase. We value the stock at 27x FY22E EPS to arrive at a Mar'21 target price of Rs 8,900. BUY.

FIG 6 – P/E MULTIPLE (ONE-YEAR FORWARD)



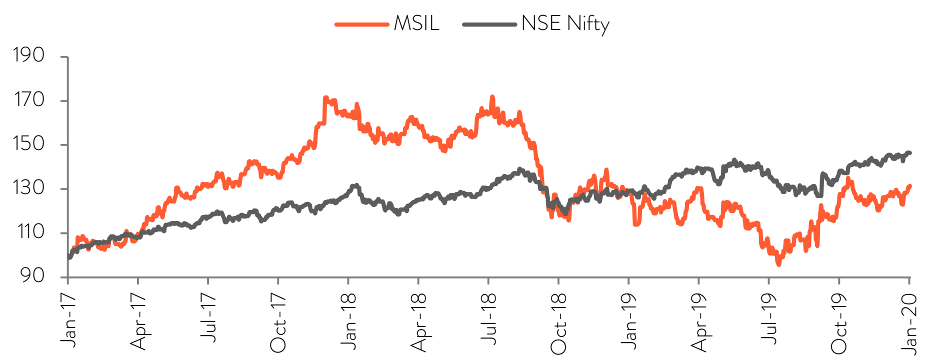
Source: Bloomberg, BOBCAPS Research, Company

FIG 7 – EV/EBITDA MULTIPLE (ONE-YEAR FORWARD)



Source: Bloomberg, BOBCAPS Research, Company

FIG 8 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- MSIL's collaboration with Toyota in India for cross-supply of vehicle production will entail sharing of models such as Vitara Brezza, Ertiga and Ciaz in the future. Any significant volume and market share losses will dent earnings and possibly trigger a derating.
- If PV demand is polarised sharply towards UVs, the company may end up losing above-expected market share as it is underrepresented in this segment.
- MSIL has ~10-12% of net exposure in foreign currency (mainly JPY). Sharp INR depreciation will adversely impact margins.

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FINANCIALS – STANDALONE

Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue	**797,627**	**860,203**	**808,999**	**899,018**	**1,001,933**
EBITDA	120,615	110,473	86,956	108,232	133,877
Depreciation	27,579	30,189	37,319	40,849	45,054
EBIT	93,036	80,284	49,637	67,383	88,824
Net interest income/(expenses)	(909)	(758)	(1,301)	(1,327)	(1,352)
Other income/(expenses)	20,455	25,610	34,682	38,137	42,023
Exceptional items	(2,548)	(480)	0	0	0
EBT	110,034	104,656	83,018	104,193	129,495
Income taxes	32,816	29,650	19,094	23,964	29,784
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	**77,218**	**75,006**	**63,924**	**80,229**	**99,711**
Adjustments	1,784	336	0	0	0
Adjusted net profit	**79,002**	**75,342**	**63,924**	**80,229**	**99,711**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Accounts payables	104,970	96,330	93,090	103,449	115,291
Other current liabilities	50,055	51,069	52,069	53,069	54,069
Provisions	10,297	9,094	9,364	9,634	9,904
Debt funds	1,108	1,496	1,496	1,496	1,496
Other liabilities	0	0	0	0	0
Equity capital	1,510	1,510	1,510	1,510	1,510
Reserves & surplus	416,063	459,905	498,159	545,167	605,015
Shareholders' fund	417,573	461,415	499,669	546,677	606,525
Total liabilities and equities	**584,003**	**619,404**	**655,688**	**714,325**	**787,285**
Cash and cash eq.	341,531	356,599	388,877	434,922	498,612
Accounts receivables	14,618	23,104	22,164	24,631	27,450
Inventories	31,608	33,257	33,247	36,946	41,175
Other current assets	34,904	31,665	33,940	36,215	38,490
Investments	12,082	10,340	10,340	10,340	10,340
Net fixed assets	133,590	154,078	157,760	161,911	156,857
CWIP	21,259	16,001	15,000	15,000	20,000
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(5,589)	(5,640)	(5,640)	(5,640)	(5,640)
Other assets	0	0	0	0	0
Total assets	**584,003**	**619,404**	**655,688**	**714,325**	**787,285**

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income + Depreciation	104,797	105,195	101,242	121,078	144,765
Interest expenses	909	758	1,301	1,327	1,352
Non-cash adjustments	927	51	0	0	0
Changes in working capital	27,610	(15,725)	(3,295)	3,188	3,788
Other operating cash flows	0	0	0	0	0
Cash flow from operations	**134,243**	**90,279**	**99,249**	**125,592**	**149,905**
Capital expenditures	(36,978)	(45,419)	(40,000)	(45,000)	(45,000)
Change in investments	(3,456)	1,742	0	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	**(40,434)**	**(43,677)**	**(40,000)**	**(45,000)**	**(45,000)**
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(3,728)	388	0	0	0
Interest expenses	(909)	(758)	(1,301)	(1,327)	(1,352)
Dividends paid	(22,656)	(24,166)	(25,670)	(33,220)	(39,864)
Other financing cash flows	(1,300)	(6,998)	0	0	0
Cash flow from financing	**(28,593)**	**(31,534)**	**(26,971)**	**(34,547)**	**(41,216)**
Changes in cash and cash eq.	**65,216**	**15,068**	**32,278**	**46,046**	**63,690**
Closing cash and cash eq.	**341,531**	**356,599**	**388,877**	**434,922**	**498,612**

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
Reported EPS	255.7	248.4	211.7	265.7	330.2
Adjusted EPS	261.6	249.5	211.7	265.7	330.2
Dividend per share	75.0	80.0	85.0	110.0	132.0
Book value per share	1,382.7	1,527.9	1,654.5	1,810.2	2,008.4

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
EV/Sales	2.6	2.3	2.4	2.1	1.9
EV/EBITDA	16.9	17.8	22.1	17.6	13.9
Adjusted P/E	28.7	30.1	35.5	28.3	22.8
P/BV	5.4	4.9	4.5	4.2	3.7

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20E	FY21E	FY22E
Tax burden (Net profit/PBT)	70.2	71.7	77.0	77.0	77.0
Interest burden (PBT/EBIT)	118.3	130.4	167.2	154.6	145.8
EBIT margin (EBIT/Revenue)	11.7	9.3	6.1	7.5	8.9
Asset turnover (Revenue/Avg TA)	146.8	143.0	126.9	131.2	133.4
Leverage (Avg TA/Avg Equity)	139.0	136.9	132.7	130.9	130.2
Adjusted ROAE	18.5	16.3	12.8	14.7	16.4

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
YoY growth (%)					
Revenue	17.2	7.8	(6.0)	11.1	11.4
EBITDA	16.5	(8.4)	(21.3)	24.5	23.7
Adjusted EPS	7.5	(4.6)	(15.2)	25.5	24.3
Profitability & Return ratios (%)					
EBITDA margin	15.1	12.8	10.7	12.0	13.4
EBIT margin	11.7	9.3	6.1	7.5	8.9
Adjusted profit margin	9.9	8.8	7.9	8.9	10.0
Adjusted ROAE	19.8	16.9	13.1	15.1	17.1
ROCE	26.7	22.6	16.6	19.1	21.3
Working capital days (days)					
Receivables	7	10	10	10	10
Inventory	17	16	17	17	17
Payables	70	58	59	59	60
Ratios (x)					
Gross asset turnover	1.8	1.8	1.5	1.5	1.6
Current ratio	2.6	2.8	3.1	3.2	3.4
Net interest coverage ratio	102.3	105.9	38.1	50.8	65.7
Adjusted debt/equity	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)

Source: Company, BOBCAPS Research

ADD

TP: Rs 220 | ⮝ 12%

TATA MOTORS | Automobiles | 20 January 2020

Near-term outlook strong but hazy beyond

JLR's cost reduction efforts reaped results in Q2FY20 when EBITDA margins hit a 10-quarter high of 13.8%. Its China volumes are recovering after a slump. Moving into a seasonally strong half, JLR should see higher volumes and margins alongside healthy FCF. Still, uncertain global prospects and high investment needs cloud the long-term outlook. We are cautious on the MHCV cycle and expect slow recovery in Tata Motors' (TTMT) India business. The stock is up ~50% since a strong Q2 print. Resume coverage with ADD; Mar'21 TP Rs 220.

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Little respite for premium auto market: Over the past couple of months, positive news flow on US-China trade talks and Brexit has improved sentiments for global autos. But tighter emission norms and heavy investments on EVs/new technologies will continue to challenge premium automakers.

JLR – cost reduction a key growth lever: JLR is set to meet its 'Project Charge' goal of a GBP 2.5bn rise in cash generation before FY20 and is likely to roll out more cost measures. Several global peers have also announced cost-cutting initiatives, but with the aim of redeploying savings into electrification and other technology investments. While JLR's model cycle over 1-2 years looks strong, growth challenges in end markets could mean that a bulk of earnings growth will hinge on cost savings.

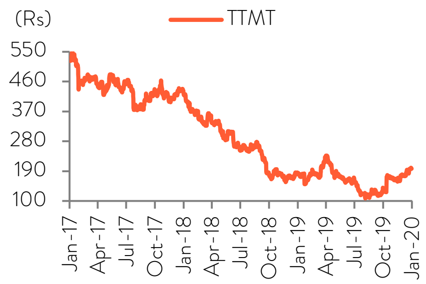
India business to remain in the slow lane: We expect a prolonged MHCV downcycle to keep TTMT's India earnings under pressure. New PV launches will help curb losses but are unlikely to be a big contributor.

Recommend ADD: We expect consolidated EPS to rebound off a low base backed by JLR's EBIT margin expansion to 4.5% in FY22E. A robust near-term outlook but uncertain long-term outlook keeps us at ADD.

Ticker/Price	TTMT IN/Rs 197
Market cap	US$ 10.0bn
Shares o/s	3,598mn
3M ADV	US$ 95.4mn
52wk high/low	Rs 239/Rs 106
Promoter/FPI/DII	38%/19%/8%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS – CONSOLIDATED

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	2,946,192	3,019,384	2,840,050	3,058,387	3,357,395
EBITDA (Rs mn)	373,480	297,948	337,467	382,467	469,982
Adj. net profit (Rs mn)	71,091	(9,721)	15,730	37,615	83,287
Adj. EPS (Rs)	20.9	(2.9)	4.4	9.8	21.8
Adj. EPS growth (%)	6.5	(113.7)	(252.7)	124.7	121.4
Adj. ROAE (%)	9.3	(1.2)	2.5	5.2	10.3
Adj. P/E (x)	9.4	(68.9)	45.1	20.1	9.1
EV/EBITDA (x)	3.0	4.0	4.0	3.9	3.3

Source: Company, BOBCAPS Research

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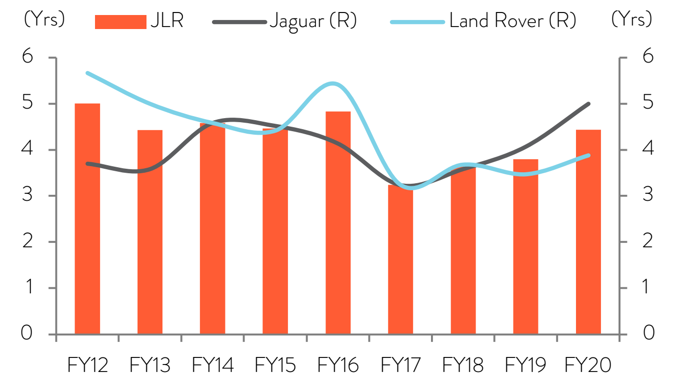
FIG 1 – FINANCIAL SNAPSHOT

	FY18	FY19	FY20E	FY21E	FY22E
Standalone Operations (Rs mn)					
Volumes (nos)	639,378	731,941	532,090	558,780	642,527
Revenues	588,314	692,028	516,985	568,001	659,179
EBITDA	40,746	57,265	20,183	22,192	42,582
EBITDA (%)	6.9	8.3	3.9	3.9	6.5
Adj. PAT	2,229	23,729	(16,142)	(8,324)	10,417
JLR (GBP mn)					
Total Volumes (nos)	633,510	565,320	560,700	587,650	617,215
Volumes ex-China JV (nos)	545,298	507,892	501,700	522,150	546,715
Revenues	25,786	24,214	24,895	26,764	29,086
EBITDA	2,894	1,981	2,902	3,326	4,020
EBITDA (%)	11.2	7.8	11.7	12.4	13.8
Adj. PAT	747	(331)	447	656	903

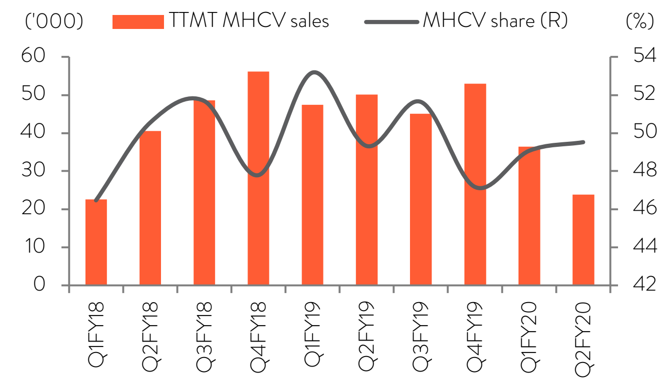
Source: Company, BOBCAPS Research

FIG 2 – AVERAGE MODEL AGE FOR JLR PORTFOLIO



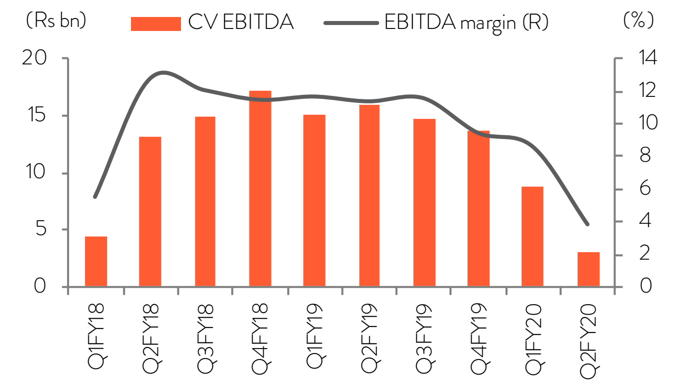
Source: Company, Media, BOBCAPS Research

FIG 3 – TTMT's MHCV MARKET SHARE TREND



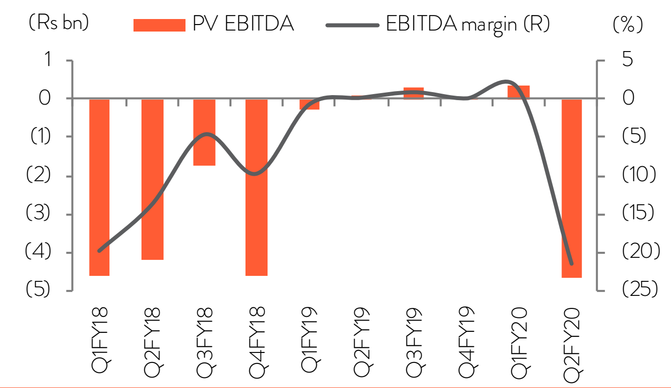
Source: SIAM, ET Autolytics, BOBCAPS Research

FIG 4 – INDIAN CV EBITDA AND MARGIN TREND



Source: Company, BOBCAPS Research

FIG 5 – INDIAN PV EBITDA AND MARGIN TREND



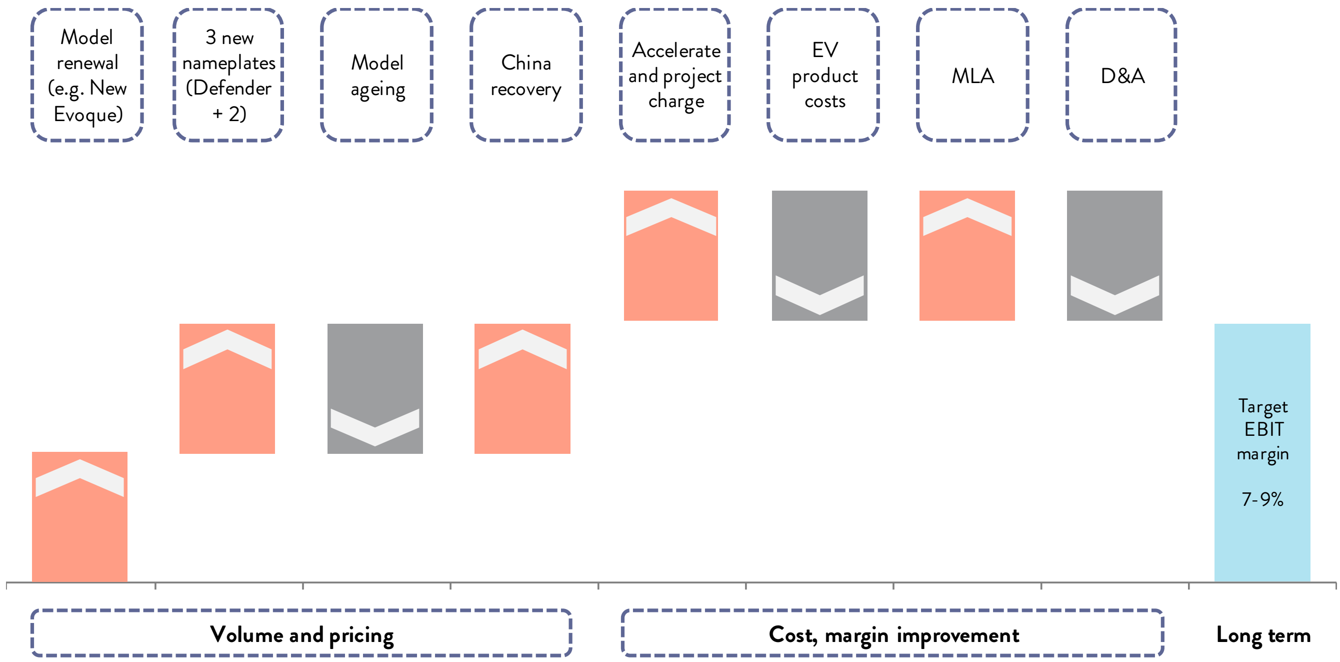
Source: Company, BOBCAPS Research

FIG 6 – COST-CUTTING INITIATIVES BY PREMIUM AUTOMAKERS

Company	Measures	Redeployment areas
Daimler	Savings on material cost (+3% ROS unit CY22)	To meet EU's CO2 target
	Personnel cost reduction of >EUR 1bn by FY22	Development of electric vehicles
	Reduction in other overhead cost	
	R&D and capex cap at EUR 14bn for CY21 & CY22 (vs. EUR 16bn in CY20E)	
	Improvement in working capital	
BMW	Cost savings of >EUR 12bn by CY22	Development of electric vehicles
	Reduced payout scheme and bonuses	Automated driving
Audi	Cost-cutting target of EUR 15bn by CY22	To invest ~EUR 14bn through CY23 towards shift to electromobility, digitalisation and autonomous driving
	Reduce number of engine types	
	Reduce ~9,500 German workers by CY25 (EUR 6bn savings)	
	Trim ~10% of various division's executive positions	
Volvo	Cut fixed costs by SEK 2bn (USD 214mn)	Electrification
	Trimmed employee strength by ~700 people	Autonomous cars & CVs

Source: Press Articles, Company presentations

FIG 7 – JLR's DRIVERS OF LONG-TERM MARGIN RECOVERY



Source: JLR Corporate Presentation

Valuation methodology

Easing trade tensions have lifted sentiments for players affected by global trade. Premium auto stocks have rallied 20-25% over the past few months. Against this backdrop, TTMT's strong Q2FY20 print came as a positive surprise that propelled its stock price up 50%. Moving into a seasonally stronger half, JLR should report further improvement in volumes and margins. A robust operating performance and reduction in working capital (usual phenomena in H2) should aid healthy FCF generation.

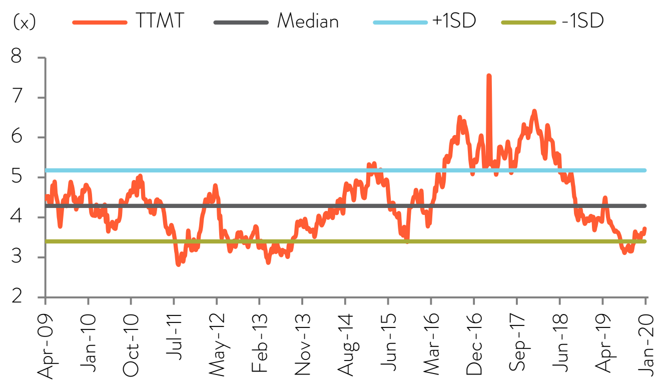
Nevertheless, uncertain prospects in global markets and high investment needs cloud the long-term outlook. We are cautious on the MHCV cycle and expect slow recovery in TTMT's India business. Resume coverage with ADD and a Mar'21 target price of Rs 220 based on SOTP valuations. We value JLR at 2.8x FY22E EBITDA (Rs 215/sh), which is a slight premium to German premium carmakers, and the India business at 8x EBITDA (Rs 90/sh).

FIG 8 – SOTP VALUATION

Business	Fair value (Rs/share)	Comments
JLR	215	2.8x FY22E EV/EBITDA
India Standalone	90	8x FY22E EV/EBITDA
Net Debt	(85)	
Total	**220**	

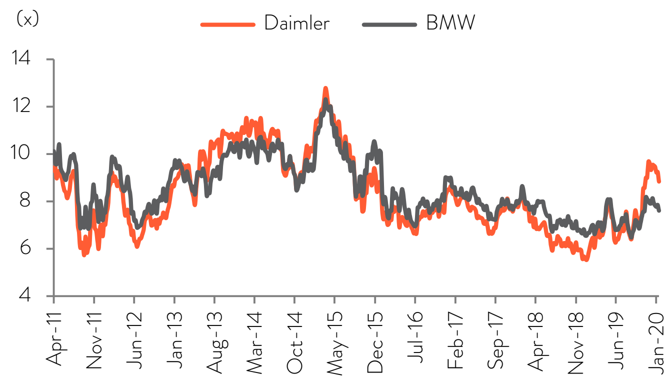
Source: BOBCAPS Research

FIG 9 – EV/EBITDA MULTIPLE (ONE-YEAR FORWARD)



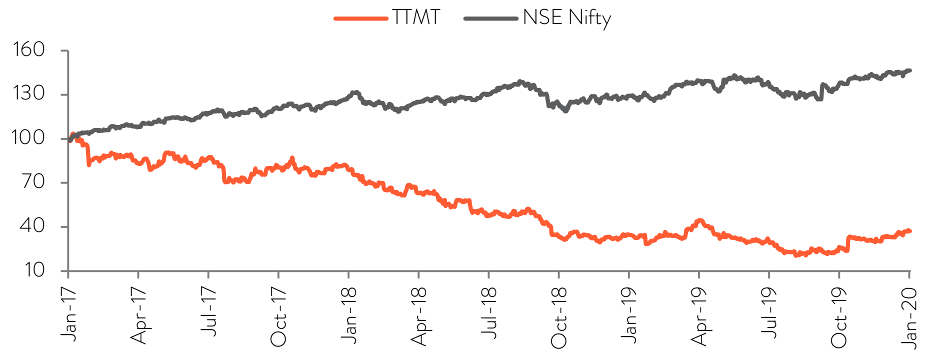
Source: Bloomberg, BOBCAPS Research, Company

FIG 10 – PE MULTIPLE (ONE YEAR FORWARD)



Source: Bloomberg, BOBCAPS Research

FIG 11 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- Any fresh concerns on trade tariffs or a hard Brexit will affect JLR's volume growth and margin prospects.
- Rapid EV adoption in key global automotive markets (China, US and Europe) will dent growth for JLR and necessitate accelerated spends on EVs as it predominantly has an ICE portfolio.
- Sharper-than-expected volume recovery in China auto sales will drive strong volumes and profit improvement for JLR. This could pose an upside risk to our estimates.

FINANCIALS – CONSOLIDATED

Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue	**2,946,192**	**3,019,384**	**2,840,050**	**3,058,387**	**3,357,395**
EBITDA	373,480	297,948	337,467	382,467	469,982
Depreciation	250,855	278,152	259,654	291,500	329,215
EBIT	131,514	49,449	108,680	122,164	175,132
Net interest income/(expenses)	(46,818)	(57,586)	(69,078)	(68,626)	(68,281)
Other income/(expenses)	8,889	29,653	36,848	46,801	50,187
Exceptional items	26,854	(305,575)	0	0	0
EBT	111,550	(313,712)	39,603	53,538	106,851
Income taxes	43,419	(24,375)	14,437	16,947	25,679
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	21,758	1,075	(9,436)	1,024	2,115
Reported net profit	**89,889**	**(288,262)**	**15,730**	**37,615**	**83,287**
Adjustments	(18,798)	278,541	0	0	0
Adjusted net profit	**71,091**	**(9,721)**	**15,730**	**37,615**	**83,287**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Accounts payables	769,398	716,967	731,306	745,932	760,851
Other current liabilities	305,752	283,623	279,290	284,876	290,573
Provisions	79,535	101,968	58,726	94,769	148,245
Debt funds	889,505	1,061,753	1,051,640	1,046,640	1,041,640
Other liabilities	315,036	305,839	236,487	216,657	207,925
Equity capital	6,792	6,792	7,195	7,658	7,658
Reserves & surplus	947,487	595,003	673,501	757,424	850,243
Shareholders' fund	954,279	601,796	680,696	765,082	857,901
Total liabilities and equities	**3,313,505**	**3,071,945**	**3,038,145**	**3,153,955**	**3,307,134**
Cash and cash eq.	346,139	326,488	238,817	222,775	267,684
Accounts receivables	198,933	189,962	185,919	198,104	214,767
Inventories	421,376	390,137	381,874	410,498	448,085
Other current assets	241,669	232,426	230,408	230,408	230,408
Investments	208,128	157,707	151,154	151,154	151,154
Net fixed assets	1,212,974	1,104,866	1,183,786	1,295,187	1,349,565
CWIP	400,335	318,838	316,394	296,036	295,678
Intangible assets	1,165	7,479	7,479	7,479	7,479
Deferred tax assets, net	41,587	51,511	50,355	50,355	50,355
Other assets	241,200	292,531	291,959	291,959	291,959
Total assets	**3,313,505**	**3,071,945**	**3,038,145**	**3,153,955**	**3,307,135**

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income + Depreciation	243,775	220,389	210,073	252,386	330,822
Interest expenses	46,818	57,586	69,078	68,626	68,281
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(26,712)	(2,674)	(18,910)	15,445	19,842
Other operating cash flows	(25,306)	(86,393)	0	0	0
Cash flow from operations	**238,574**	**188,908**	**260,240**	**336,456**	**418,945**
Capital expenditures	(350,789)	(353,035)	(338,035)	(338,035)	(338,035)
Change in investments	(1,242)	56,220	6,553	0	0
Other investing cash flows	42,170	(26,405)	23,959	33,021	37,280
Cash flow from investing	**(309,861)**	**(323,221)**	**(307,523)**	**(305,014)**	**(300,755)**
Equities issued/Others	0	0	38,803	26,141	0
Debt raised/repaid	103,465	172,249	(10,114)	(5,000)	(5,000)
Interest expenses	(46,818)	(57,586)	(69,078)	(68,626)	(68,281)
Dividends paid	0	0	0	0	0
Other financing cash flows	0	0	0	0	0
Cash flow from financing	**56,647**	**114,663**	**(40,388)**	**(47,485)**	**(73,281)**
Changes in cash and cash eq.	**(14,640)**	**(19,651)**	**(87,671)**	**(16,042)**	**44,909**
Closing cash and cash eq.	**346,139**	**326,488**	**238,817**	**222,775**	**267,684**

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
Reported EPS	20.9	(2.9)	4.4	9.8	21.8
Adjusted EPS	20.9	(2.9)	4.4	9.8	21.8
Dividend per share	0.0	0.0	0.0	0.0	0.0
Book value per share	281.0	177.2	189.2	199.8	224.1

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
EV/Sales	0.4	0.4	0.5	0.5	0.5
EV/EBITDA	3.0	4.0	4.0	3.9	3.3
Adjusted P/E	9.4	(68.9)	45.1	20.1	9.1
P/BV	0.7	1.1	1.0	1.0	0.9

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20E	FY21E	FY22E
Tax burden (Net profit/PBT)	63.7	3.1	39.7	70.3	77.9
Interest burden (PBT/EBIT)	84.8	(634.4)	36.4	43.8	61.0
EBIT margin (EBIT/Revenue)	4.5	1.6	3.8	4.0	5.2
Asset turnover (Revenue/Avg TA)	150.3	146.3	144.2	153.0	162.4
Leverage (Avg TA/Avg Equity)	255.4	265.3	307.1	276.5	254.8
Adjusted ROAE	9.3	(1.2)	2.5	5.2	10.3

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
YoY growth (%)					
Revenue	9.2	2.5	(5.9)	7.7	9.8
EBITDA	13.2	(20.2)	13.3	13.3	22.9
Adjusted EPS	6.5	(113.7)	(252.7)	124.7	121.4
Profitability & Return ratios (%)					
EBITDA margin	12.7	9.9	11.9	12.5	14.0
EBIT margin	4.5	1.6	3.8	4.0	5.2
Adjusted profit margin	2.4	(0.3)	0.6	1.2	2.5
Adjusted ROAE	9.3	(1.2)	2.5	5.2	10.3
ROCE	6.7	2.4	5.5	6.1	8.5
Working capital days (days)					
Receivables	25	23	24	24	23
Inventory	83	73	79	79	79
Payables	95	87	94	89	83
Ratios (x)					
Gross asset turnover	0.9	1.0	0.9	1.0	1.0
Current ratio	1.0	1.0	1.0	0.9	1.0
Net interest coverage ratio	2.8	0.9	1.6	1.8	2.6
Adjusted debt/equity	0.9	1.8	1.5	1.4	1.2

Source: Company, BOBCAPS Research

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REDUCE
TP: Rs 465 | ⋎ 4%

TVS MOTOR | Automobiles | 20 January 2020

Looming headwinds; rich valuations – REDUCE

TVS Motor (TVSL) has enjoyed one of the best new-launch success rates in the 2W industry over the past 3-4 years. However, the benefit of new launches is waning. Margins have held up well in the past few quarters on cost-cutting efforts. But we believe stiff competition, risk of cyclical downturn in exports, and a large bump-up in costs due to the BS-VI shift (esp. on mopeds) will act as volume and margin headwinds. Despite being 35% off the peak, stock valuations are rich at 27x FY21E EPS (ex-TVS Credit). Resume coverage with REDUCE; TP Rs 465.

Navin Matta | Nishant Chowhan, CFA
research@bobcaps.in

Product execution impressive but demand outlook tepid: TVSL's success rate with new launches has been impressive. Ramp-up in scooters/premium bikes drove 300bps market share gains over FY14-FY19 despite moderate moped growth. With the benefits from new launches behind us and demand headwinds led by the BS-VI shift (esp. on mopeds), we expect its domestic 2W volume growth to moderate to ~7% CAGR over FY20-FY22 after a 15% dip in FY20.

Cyclical concerns on exports: TVSL's export volumes rose at a 19% CAGR over FY16-FY19, with market share improvement in both 2Ws and 3Ws in terms of exports from India. Nonetheless, we advocate caution as we see risks of a cyclical slowdown on the back of a high base and soft global economic outlook.

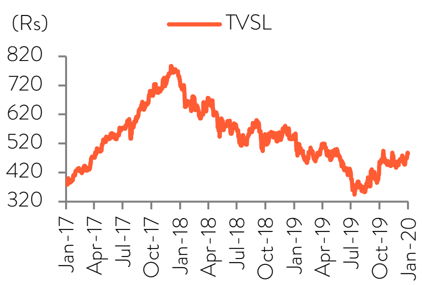
Margins at risk from regulatory cost increase: The company's cost reduction efforts are commendable. But an estimated 12-15% cost rise on ~50% of its portfolio to meet BS-VI standards, in conjunction with elevated competitive intensity, makes margin expansion over the next two years hard to envisage.

Valuations rich; REDUCE: While we expect TVSL to trade at premium to peers, current valuations are demanding even baking in a 15% earnings CAGR for FY20-FY22. Our SOTP target is set at 22x FY22E EPS plus Rs 45/sh for TVS Credit.

Ticker/Price	TVSL IN/Rs 485
Market cap	US$ 3.2bn
Shares o/s	475mn
3M ADV	US$ 11.8mn
52wk high/low	Rs 561/Rs 338
Promoter/FPI/DII	57%/13%/19%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS – STANDALONE

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	151,297	182,099	175,234	199,834	220,029
EBITDA (Rs mn)	11,292	14,333	14,480	15,769	18,675
Adj. net profit (Rs mn)	6,626	6,701	6,857	7,158	9,079
Adj. EPS (Rs)	13.9	14.1	14.4	15.1	19.1
Adj. EPS growth (%)	18.7	1.1	2.3	4.4	26.8
Adj. ROAE (%)	23.0	20.0	17.7	16.4	18.0
Adj. P/E (x)	34.8	34.4	33.6	32.2	25.4
EV/EBITDA (x)	21.3	16.9	16.8	15.5	13.0

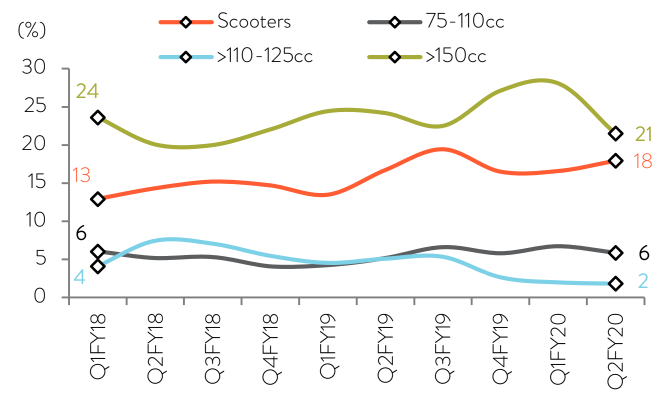
Source: Company, BOBCAPS Research

FIG 1 – SALES VOLUME SNAPSHOT

(Nos)	FY18	FY19	FY20E	FY21E	FY22E
Total Volumes	**3,464,768**	**3,913,380**	**3,541,286**	**3,754,430**	**4,053,833**
YoY growth (%)	18	13	(10)	6	8
Total 2W	**3,366,084**	**3,756,946**	**3,364,168**	**3,561,556**	**3,842,694**
YoY growth (%)	18	12	(10)	6	8
Domestic 2W	2,875,466	3,134,927	2,677,098	2,825,258	3,049,594
YoY growth (%)	15	9	(15)	6	8
Exports 2W	490,618	622,019	687,070	736,298	793,100
YoY growth (%)	34	27	10	7	8
Total Three Wheelers	**98,684**	**156,434**	**177,118**	**192,874**	**211,140**
YoY growth (%)	42	59	13	9	9
Domestic 3W	20,598	16,715	15,044	14,592	15,030
YoY growth (%)	68	(19)	(10)	(3)	3
Exports 3W	78,086	139,719	162,074	178,281	196,110
YoY growth (%)	37	79	16	10	10

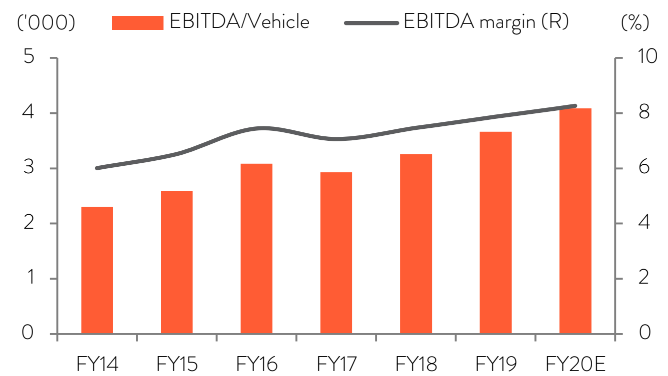
Source: Company, BOBCAPS Research

FIG 2 – TVSL'S MARKET SHARE TRENDS



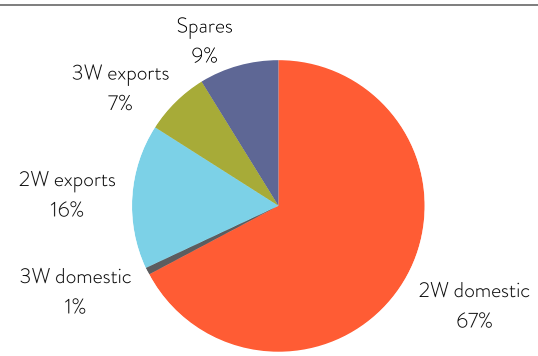
Source: SIAM, ET Autolytics, BOBCAPS Research

FIG 3 – EBITDA/VEH AND MARGIN TREND



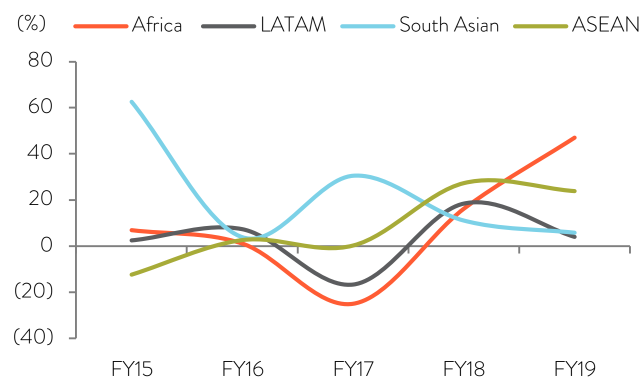
Source: Company, BOBCAPS Research

FIG 4 – ESTIMATED REVENUE SPLIT, FY19



Source: Company, BOBCAPS Research

FIG 5 – 2W EXPORT GROWTH FROM INDIA



Source: Department of commerce, BOBCAPS Research

Valuation methodology

TVSL currently trades at 27x FY21E EPS, adjusted for its stake in TVS Credit. Valuations have been heady over the past five years as the street was hopeful of sharp margin-led earnings growth. Instead, consensus earnings have seen successive downgrades in each of the past five years.

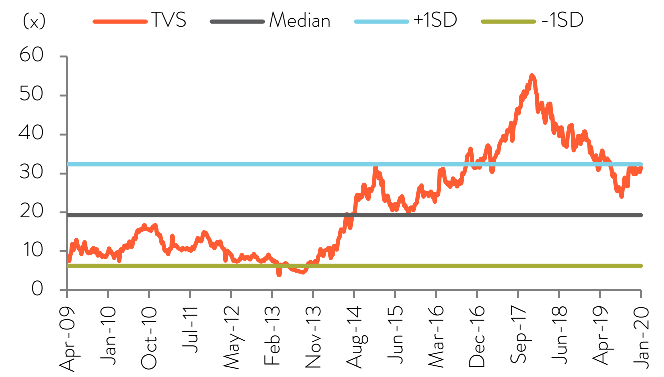
We like TVSL's improving franchise in domestic scooters/premium bikes and its exports story, but further upsides from current valuations look difficult in light of the industry-wide challenges. We assign a target P/E multiple of 22x on FY22E (Rs 420/sh), which is at 30-55% premium to peers given the company's better growth prospects and diversified mix. In addition, we value TVSL's financing arm at Rs 45/sh based on 1.5x FY22E P/BV, adding up to a Mar'21 SOTP-based target price of Rs 465. Resume coverage with REDUCE.

FIG 6 – SOTP VALUATION

Business	Fair value (Rs/Share)	Comments
Core business	420	22x FY22E EPS
TVS Credit	45	1.5x FY22E P/B
Target price	**465**	

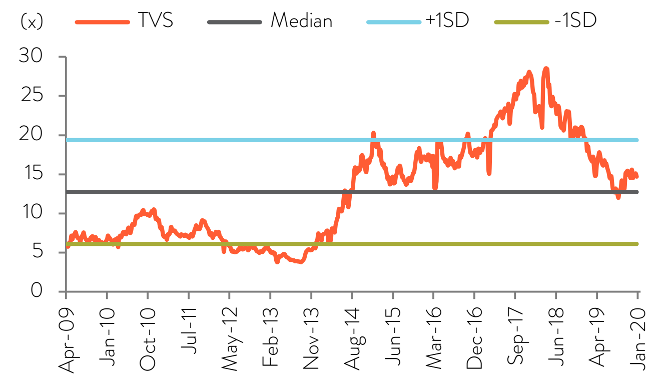
Source: BOBCAPS Research

FIG 7 – P/E MULTIPLE (ONE- YEAR FORWARD)



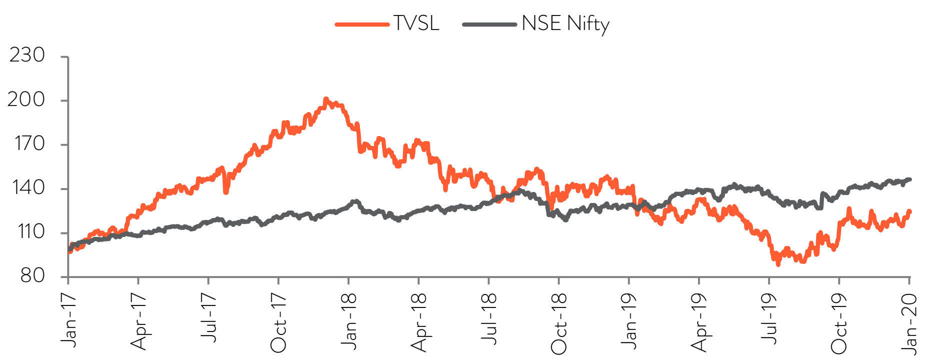
Source: Bloomberg, BOBCAPS Research, Company

FIG 8 – EV/EBITDA MULTIPLE (ONE-YEAR FORWARD)



Source: Bloomberg, BOBCAPS Research, Company

FIG 9 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- A sharp margin uptick supported by aggressive cost reduction measures could aid above-expected earnings growth and keep valuations at elevated levels.
- A sharp rise in financing ratio for 2Ws with higher loan tenures could partly soften the impact of BS-VI costs and aid better-than-expected domestic 2W growth.

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FINANCIALS – STANDALONE

Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue	**151,297**	**182,099**	**175,234**	**199,834**	**220,029**
EBITDA	11,292	14,333	14,480	15,769	18,675
Depreciation	3,387	3,993	4,968	5,469	5,895
EBIT	7,905	10,340	9,512	10,300	12,780
Net interest income/(expenses)	(566)	(806)	(1,008)	(1,015)	(980)
Other income/(expenses)	1,448	75	112	133	146
Exceptional items	0	0	565	0	0
EBT	8,786	9,610	9,182	9,418	11,946
Income taxes	2,161	2,908	1,873	2,260	2,867
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	**6,626**	**6,701**	**7,309**	**7,158**	**9,079**
Adjustments	0	0	(452)	0	0
Adjusted net profit	**6,626**	**6,701**	**6,857**	**7,158**	**9,079**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Accounts payables	25,180	29,239	28,221	32,221	35,494
Other current liabilities	3,279	3,673	3,773	3,873	3,973
Provisions	1,158	1,183	1,233	1,283	1,333
Debt funds	11,892	14,000	14,000	15,000	13,000
Other liabilities	0	0	0	0	0
Equity capital	475	475	475	475	475
Reserves & surplus	28,329	32,998	38,193	43,237	49,858
Shareholders' fund	28,804	33,473	38,668	43,712	50,333
Total liabilities and equities	**70,313**	**81,567**	**85,894**	**96,088**	**104,132**
Cash and cash eq.	110	440	983	2,795	3,539
Accounts receivables	9,684	14,141	14,111	16,110	17,747
Inventories	9,644	11,759	11,292	12,892	14,201
Other current assets	6,973	5,981	6,231	6,481	6,731
Investments	20,354	23,007	25,507	29,007	32,507
Net fixed assets	23,719	25,793	29,898	30,929	31,534
CWIP	1,311	2,572	0	0	0
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(1,482)	(2,126)	(2,126)	(2,126)	(2,126)
Other assets	0	0	0	0	0
Total assets	**70,313**	**81,567**	**85,894**	**96,088**	**104,132**

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income + Depreciation	10,013	10,694	12,277	12,626	14,974
Interest expenses	566	806	1,008	1,015	980
Non-cash adjustments	225	645	0	0	0
Changes in working capital	3,302	(1,104)	(619)	300	227
Other operating cash flows	0	0	0	0	0
Cash flow from operations	**14,106**	**11,041**	**12,665**	**13,941**	**16,181**
Capital expenditures	(7,956)	(7,328)	(6,500)	(6,500)	(6,500)
Change in investments	(4,475)	(2,653)	(2,500)	(3,500)	(3,500)
Other investing cash flows	0	0	0	0	0
Cash flow from investing	**(12,431)**	**(9,981)**	**(9,000)**	**(10,000)**	**(10,000)**
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	820	2,108	0	1,000	(2,000)
Interest expenses	(566)	(806)	(1,008)	(1,015)	(980)
Dividends paid	(1,803)	(1,912)	(2,022)	(2,022)	(2,349)
Other financing cash flows	(102)	(120)	(93)	(93)	(108)
Cash flow from financing	**(1,651)**	**(730)**	**(3,122)**	**(2,129)**	**(5,437)**
Changes in cash and cash eq.	**24**	**330**	**543**	**1,812**	**744**
Closing cash and cash eq.	**110**	**440**	**983**	**2,795**	**3,539**

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
Reported EPS	13.9	14.1	14.4	15.1	19.1
Adjusted EPS	13.9	14.1	14.4	15.1	19.1
Dividend per share	3.3	3.5	3.7	3.7	4.3
Book value per share	60.6	70.5	81.4	92.0	105.9

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
EV/Sales	1.6	1.3	1.4	1.2	1.1
EV/EBITDA	21.3	16.9	16.8	15.5	13.0
Adjusted P/E	34.8	34.4	33.6	32.2	25.4
P/BV	8.0	6.9	6.0	5.3	4.6

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20E	FY21E	FY22E
Tax burden (Net profit/PBT)	75.4	69.7	79.6	76.0	76.0
Interest burden (PBT/EBIT)	111.2	92.9	96.5	91.4	93.5
EBIT margin (EBIT/Revenue)	5.2	5.7	5.4	5.2	5.8
Asset turnover (Revenue/Avg TA)	236.2	239.8	209.3	219.6	219.8
Leverage (Avg TA/Avg Equity)	242.2	243.9	232.1	220.9	212.9
Adjusted ROAE	23.0	20.0	17.7	16.4	18.0

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
YoY growth (%)					
Revenue	24.7	20.4	(3.8)	14.0	10.1
EBITDA	31.8	26.9	1.0	8.9	18.4
Adjusted EPS	18.7	1.1	2.3	4.4	26.8
Profitability & Return ratios (%)					
EBITDA margin	7.5	7.9	8.3	7.9	8.5
EBIT margin	5.2	5.7	5.4	5.2	5.8
Adjusted profit margin	4.4	3.7	3.9	3.6	4.1
Adjusted ROAE	23.0	20.0	17.7	16.4	18.0
ROCE	22.2	21.0	17.6	17.1	19.7
Working capital days (days)					
Receivables	23	28	29	29	29
Inventory	23	24	24	24	24
Payables	61	59	59	59	59
Ratios (x)					
Gross asset turnover	3.5	3.6	3.1	3.2	3.3
Current ratio	0.9	0.9	1.0	1.0	1.0
Net interest coverage ratio	14.0	12.8	9.4	10.1	13.0
Adjusted debt/equity	0.4	0.4	0.3	0.3	0.2

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

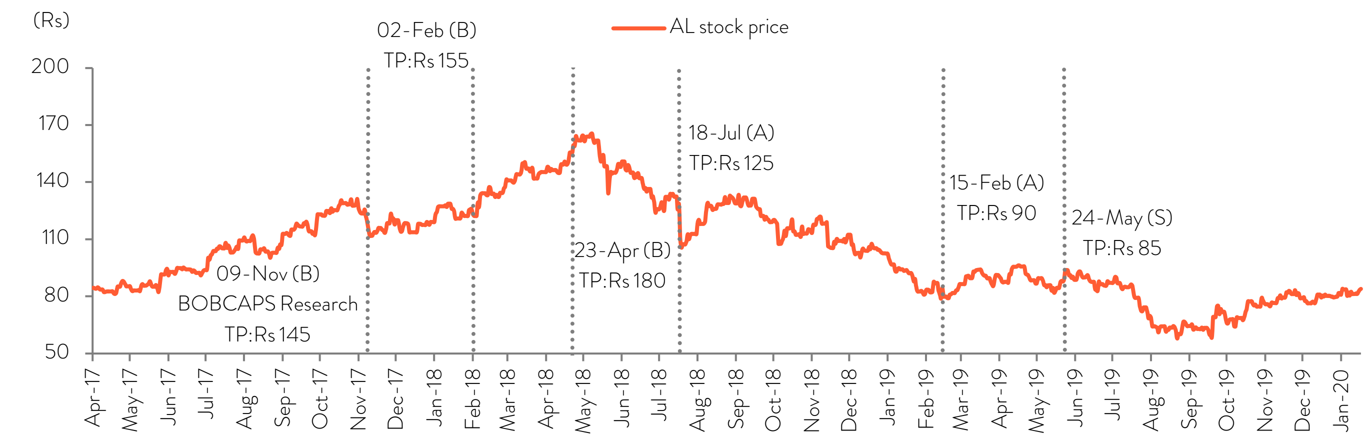
ADD – Expected return from >+5% to +15%

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

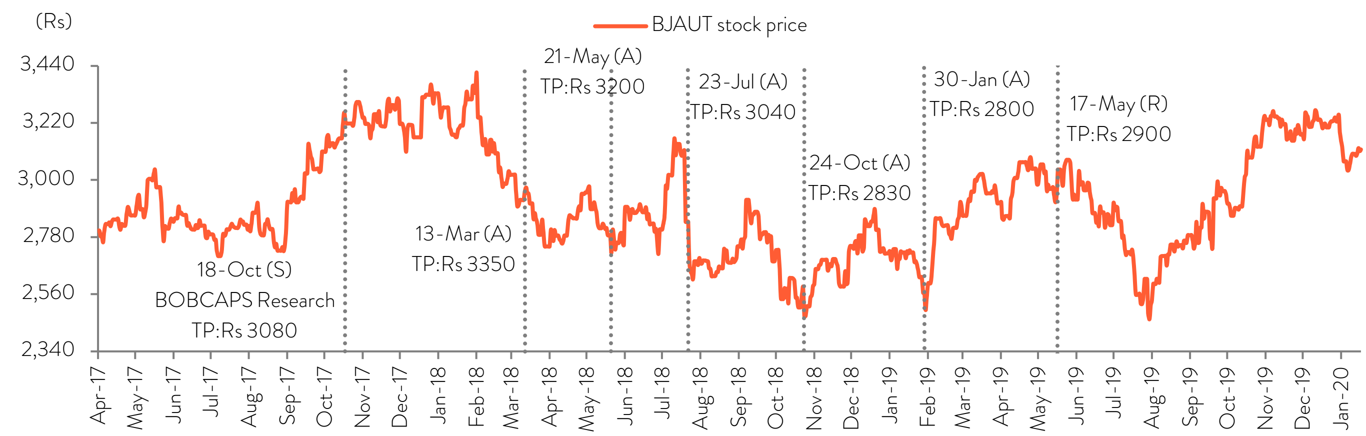
SELL – Expected return <-5%

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

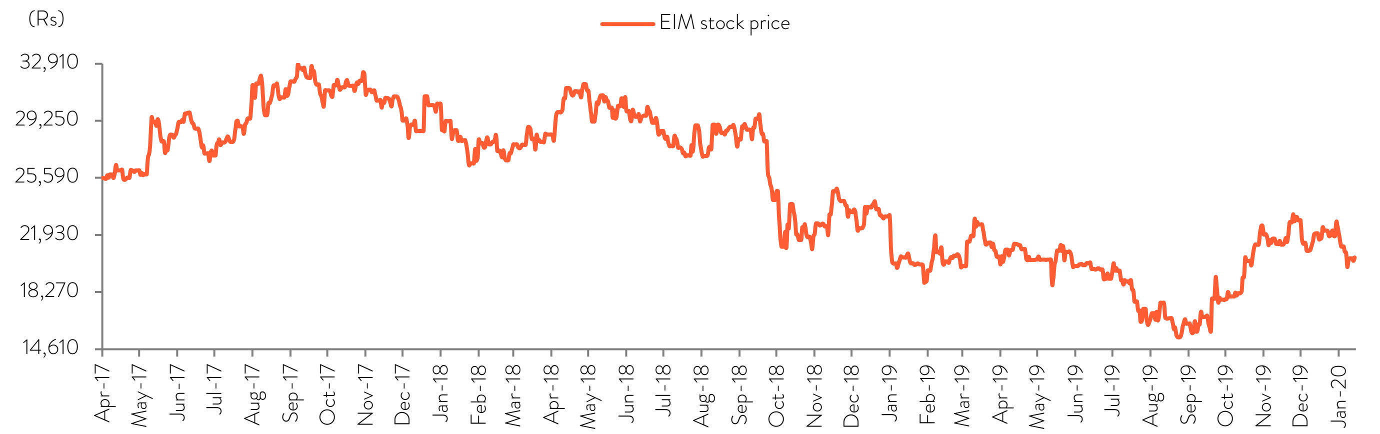
HISTORICAL RATINGS AND TARGET PRICE: ASHOK LEYLAND (AL IN)



HISTORICAL RATINGS AND TARGET PRICE: BAJAJ AUTO (BJAUT IN)



HISTORICAL RATINGS AND TARGET PRICE: EICHER MOTORS (EIM IN)



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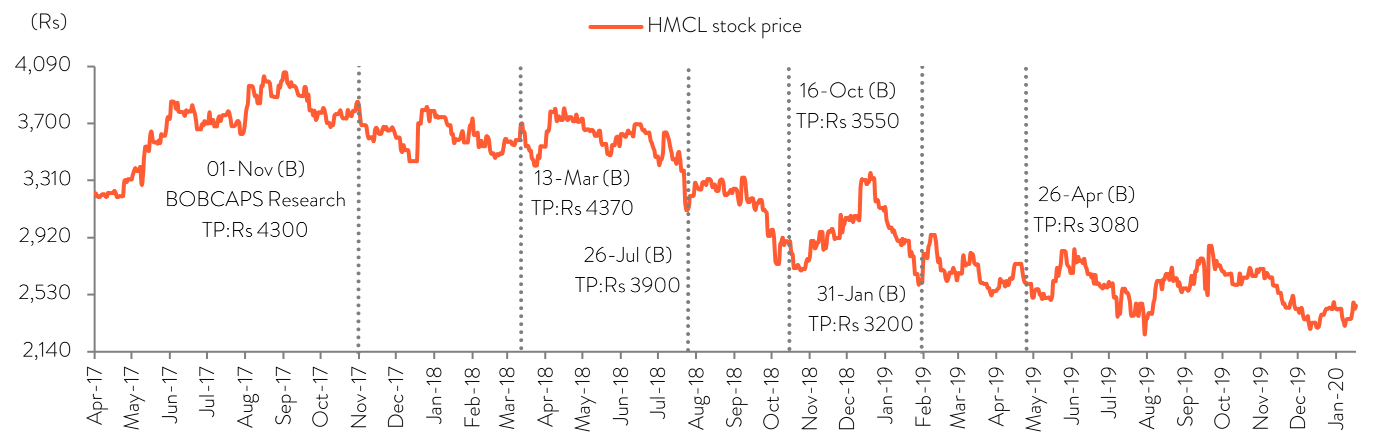
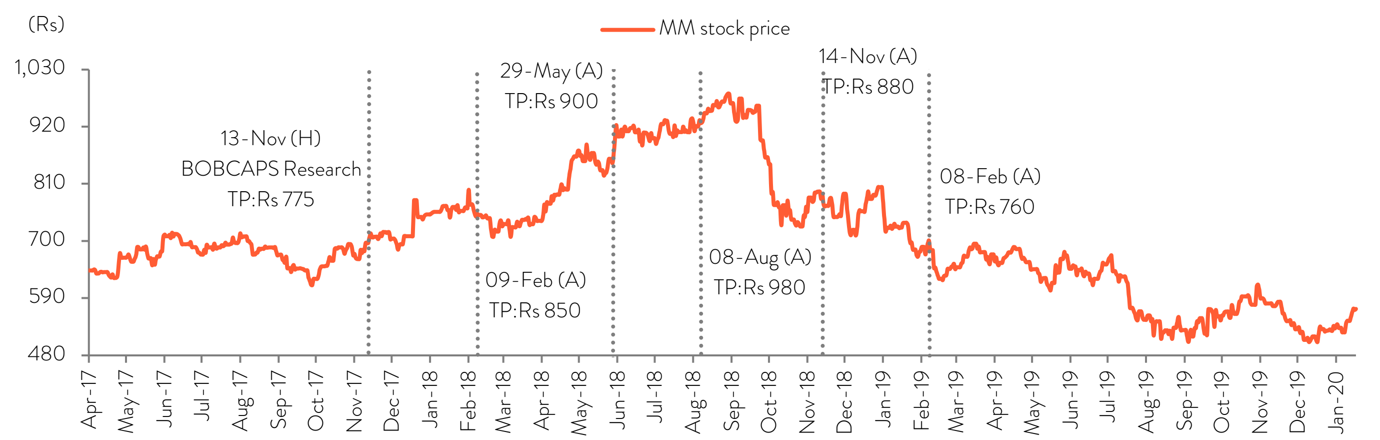
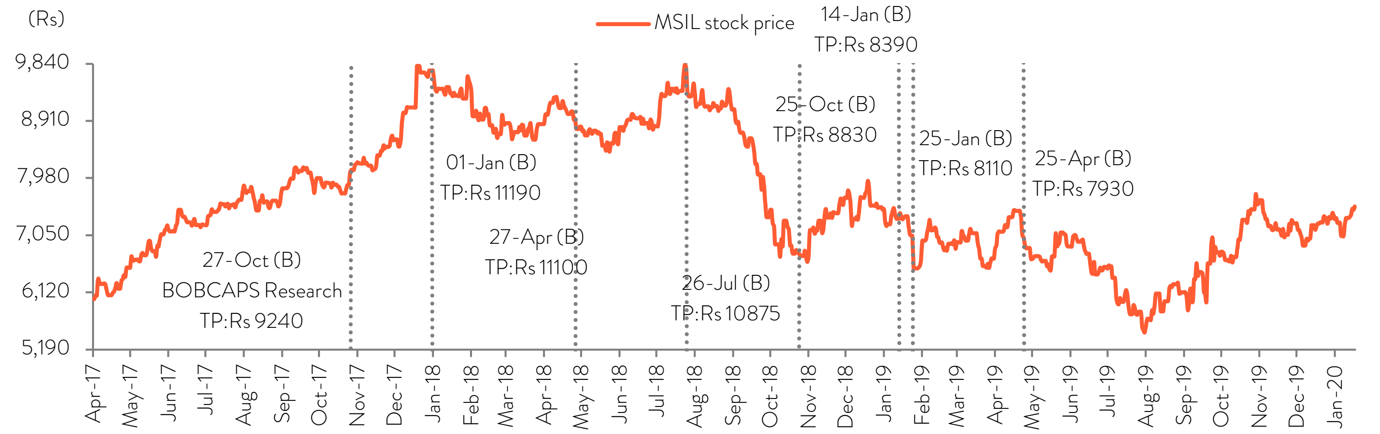


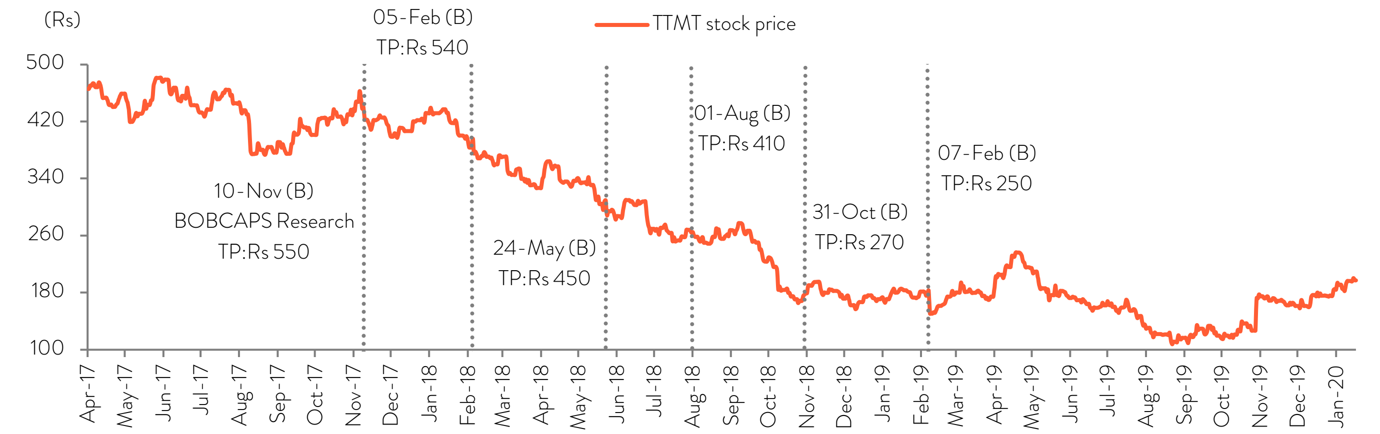
HISTORICAL RATINGS AND TARGET PRICE: MAHINDRA & MAHINDRA (MM IN)



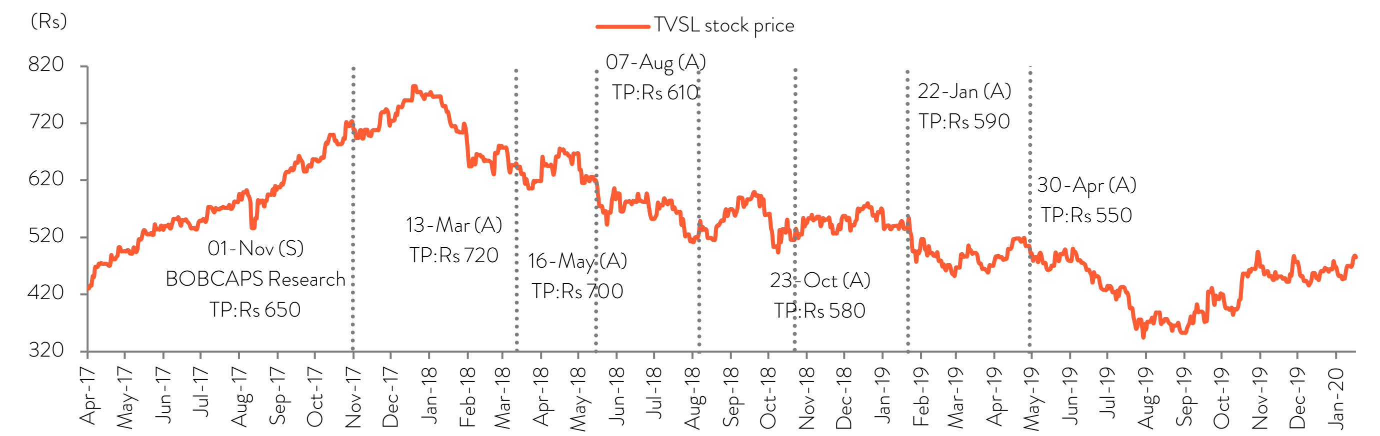
HISTORICAL RATINGS AND TARGET PRICE: MARUTI SUZUKI (MSIL IN)



HISTORICAL RATINGS AND TARGET PRICE: TATA MOTORS (TTMT IN)



HISTORICAL RATINGS AND TARGET PRICE: TVS MOTOR (TVSL IN)



B – Buy, A – Add, R – Reduce, S – Sell, H – Hold

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