BOBCAPS
TRUST | INNOVATION | EXCELLENCE

AUTOMOBILES

02 November 2020

Oct'20 Auto Sales: Encouraging volumes; maintain cautious stance

Mayur Milak | Nishant Chowhan, CFA
research@bobcaps.in

Auto sales continued their upward trajectory in October with healthy YoY growth, ahead of our estimates. Domestic PV industry sales surged 18% YoY and Hero Moto's (HMCL) 2W volumes rose 35%. MHCV volumes remain the worst affected, slipping 11% YoY for AL while its LCVs were up 14%. Tractor sales grew ~2% YoY for MM and ESC. Despite the strong volume uptick, we remain cautious as we believe growth is being led by a rise in production capacity and channel filling while retail sales still languish. Festive demand holds the key.

PV sales rise: Maruti's (MSIL) domestic sales increased 20% YoY to 172.9k units in Oct'20 while exports rose 5%. Growth was led by the compact/ van segments which grew 27%/33% YoY, followed by UVs (+10%). The midsize/mini segments posted declines of 40%/0.3% YoY. PV sales for M&M (MM) were up 1% YoY while Hyundai Motors saw a 13% rise. New entrant KIA continues to outperform, growing 64% YoY while Tata Motors also posted strong 79% growth. We believe channel filling ahead of the festive season and expanding OEM production capacities are serving as key growth drivers.

HMCL and BJAUT clock highest 2W monthly sales: Hero's (HMCL) wholesale volumes surged 35% YoY to 806.9k in Oct'20, with scooter sales clocking 60% growth and motorcycles increasing 32% YoY. 2W sales for Bajaj Auto (BJAUT) rose 18% YoY to 470.3k, while TVS Motor (TVSL) saw a 24% increase to 382.1k units. 3W sales for TVSL and BJAUT remained weak, falling 17% and 35% YoY respectively. Royal Enfield reported total 2W sales of 66.9k units (–7% YoY). Most 2W OEMs have guided for a flattish to minor drop in retail sales for the current festive season.

MHCV slump continues: Ashok Leyland's (AL) CV sales were up 1% YoY to 10k units. MHCVs were the worst hit, slumping 11% YoY, while LCVs were up 14%. In FY21 YTD, AL's sale volumes have plunged 58% YoY, led by a steep 72% drop in MHCVs and a 34% YoY decline in LCVs.

Tractors resilient: MM sold 46.6k tractors (+2.5% YoY) in Oct'20 and competitor Escorts (ESC) sold 13.7k units (+2.3% YoY). As per tractor OEMs, despite operating at near-full capacity, tractor demand continues to outpace supply owing to below-par dealer inventories and healthy fundamental drivers such as a good harvest and better crop price realisations.

Four-wheelers

FIG 1 – ASHOK LEYLAND

Segment	Oct-20	Oct-19	YoY (%)	Sep-20	MoM (%)	YTD FY21	YTD FY20	YoY (%)
M&HCV	4,588	5,131	(10.6)	3,642	26.0	13,545	48,665	(72.2)
LCV	5,401	4,731	14.2	4,702	14.9	19,702	29,743	(33.8)
Total domestic sales	**9,989**	**9,862**	**1.3**	**8,344**	**19.7**	**33,247**	**78,408**	**(57.6)**

Source: Company, BOBCAPS Research

FIG 2 – MARUTI SUZUKI

Segment	Oct-20	Oct-19	YoY (%)	Sep-20	MoM (%)	YTD FY21	YTD FY20	YoY (%)
Domestic sales	172,862	144,277	19.8	152,608	13.3	610,508	831,277	(26.6)
Exports	9,586	9,158	4.7	7,834	22.4	41,669	63,069	(33.9)
Total sales	**182,448**	**153,435**	**18.9**	**160,442**	**13.7**	**652,177**	**894,346**	**(27.1)**

Source: Company, BOBCAPS Research

FIG 3 – MAHINDRA & MAHINDRA

Segment	Oct-20	Oct-19	YoY (%)	Sep-20	MoM (%)	YTD FY21	YTD FY20	YoY (%)
Passenger vehicles	18,622	18,460	0.9	14,857	25.3	70,097	122,531	(42.8)
- Utility vehicles	18,317	17,785	3.0	14,663	24.9	68,988	116,778	(40.9)
- Cars + Vans	305	675	(54.8)	194	57.2	1,109	5,753	(80.7)
Commercial vehicles	20,598	23,582	(12.7)	18,907	8.9	83,494	124,701	(33.0)
3-wheelers	3,118	7,151	(56.4)	587	431.2	4,147	37,821	(89.0)
Total domestic sales	**42,338**	**49,193**	**(13.9)**	**34,351**	**23.3**	**157,738**	**285,053**	**(44.7)**
Exports	2,021	2,703	(25.2)	1,569	28.8	8,296	18,102	(54.2)
Total auto sales	**44,359**	**51,896**	**(14.5)**	**35,920**	**23.5**	**166,034**	**303,155**	**(45.2)**
Tractor domestic	45,588	44,646	2.1	42,361	7.6	200,492	196,650	2.0
Tractor exports	970	787	23.3	1,025	(5.4)	4,969	6,953	(28.5)
Total tractor sales	**46,558**	**45,433**	**2.5**	**43,386**	**7.3**	**205,461**	**203,603**	**0.9**

Source: Company, BOBCAPS Research

FIG 4 – ESCORTS

Segment	Oct-20	Oct-19	YoY (%)	Sep-20	MoM (%)	YTD FY21	YTD FY20	YoY (%)
Tractors	13,664	13,353	2.3	11,851	15.3	56,255	54,154	3.9
Total sales	**13,664**	**13,353**	**2.3**	**11,851**	**15.3**	**56,255**	**54,154**	**3.9**

Source: Company, BOBCAPS Research

Two-wheelers

FIG 5 – HERO MOTOCORP

Segment	Oct-20	Oct-19	YoY (%)	Sep-20	MoM (%)	YTD FY21	YTD FY20	YoY (%)
2-wheelers	806,848	599,248	34.6	715,718	12.7	3,184,957	4,133,588	(22.9)
Total sales	**806,848**	**599,248**	**34.6**	**715,718**	**12.7**	**3,184,957**	**4,133,588**	**(22.9)**

Source: Company, BOBCAPS Research

FIG 6 – ROYAL ENFIELD

Segment	Oct-20	Oct-19	YoY (%)	Sep-20	MoM (%)	YTD FY21	YTD FY20	YoY (%)
Up to 350cc	60,467	64,257	(5.9)	54,144	11.7	249,785	369,042	(32.3)
Exceeding 350cc	6,424	7,707	(16.6)	5,897	8.9	24,803	53,100	(53.3)
Exports	4,033	4,426	(8.9)	4,131	(2.4)	15,476	27,382	(43.5)
Total sales	**66,891**	**71,964**	**(7.0)**	**60,041**	**11.4**	**274,588**	**422,142**	**(35.0)**

Source: Company, BOBCAPS Research

FIG 7 – TVS MOTOR

Segment	Oct-20	Oct-19	YoY (%)	Sep-20	MoM (%)	YTD FY21	YTD FY20	YoY (%)
Total 2-wheeler sales	382,121	308,161	24.0	313,332	22.0	1,472,525	2,034,270	(27.6)
Total 3-wheeler sales	12,603	15,207	(17.1)	14,360	(12.2)	57,596	98,125	(41.3)
Total sales	**394,724**	**323,368**	**22.1**	**327,692**	**20.5**	**1,530,121**	**2,132,395**	**(28.2)**

Source: Company, BOBCAPS Research

FIG 8 – BAJAJ AUTO

Segment	Oct-20	Oct-19	YoY (%)	Sep-20	MoM (%)	YTD FY21	YTD FY20	YoY (%)
Motorcycles	470,290	398,913	17.9	404,851	16.2	1,834,684	2,465,780	(25.6)
3-wheelers	41,748	64,295	(35.1)	36,455	14.5	173,794	418,193	(58.4)
Total sales	**512,038**	**463,208**	**10.5**	**441,306**	**16.0**	**2,008,478**	**2,883,973**	**(30.4)**
Exports of above	230,878	184,432	25.2	212,575	8.6	962,469	1,278,964	(24.7)

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)

Rating distribution

As of 31 October 2020, out of 88 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 42 have BUY ratings, 14 have ADD ratings, 10 are rated REDUCE and 22 are rated SELL. None of these companies have been investment banking clients in the last 12 months.

Analyst certification

The research analyst(s) authoring this report hereby certifies that (1) all of the views expressed in this research report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOBCAPS.

General disclaimers

BOBCAPS is engaged in the business of Institutional Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS has obtained registration as a Research Entity under SEBI (Research Analysts) Regulations, 2014, having registration No.: INH000000040 valid till 03 February 2020. BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities —that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may act as market makers or assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

Company-specific disclosures under SEBI (Research Analysts) Regulations, 2014

The research analyst(s) or his/her relatives do not have any material conflict of interest at the time of publication of this research report.

BOBCAPS or its research analyst(s) or his/her relatives do not have any financial interest in the subject company. BOBCAPS or its research analyst(s) or his/her relatives do not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

The research analyst(s) has not received any compensation from the subject company in the past 12 months. Compensation of the research analyst(s) is not based on any specific merchant banking, investment banking or brokerage service transactions.

BOBCAPS or its research analyst(s) is not engaged in any market making activities for the subject company.

The research analyst(s) has not served as an officer, director or employee of the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.