

AUTOMOBILES

05 April 2021

Mar'21 Sales: Healthy dispatches across segments

PV sales continued their upward trajectory in Mar'21 with healthy growth (~2.3x YoY), off a soft base due to the lockdown announced in Mar'20. Domestic 2W sales were healthy and above expectations barring RE, whereas 2W exports continue to gain momentum. MHCV volumes continued their steady climb and were up 42% MoM for AL while TTMT's MHCV sales rose 29% MoM. Tractor sales were healthy for both MM and ESC. We remain negative on the sector given stretched valuations and expected margin pressure led by higher RM costs.

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PV sales along expected lines: Maruti's (MSIL) dispatches nearly doubled to 167k units in Mar'21. Its FY21 sales were down 7% YoY with LCVs the only bright spot (+37% YoY). PV sales surged 4.9x YoY for M&M (MM) on a softer base, Hyundai Motors saw a 2x rise and Tata Motors (TTMT) posted strong 5.2x growth. The coming months could see moderate dispatches from OEMs due to supply issues at vendors and lower finished goods inventory

Healthy 2W sales; RE below estimates: Hero's (HMCL) wholesale volumes were ahead of estimates at 577k in Mar'21, growing 72% YoY. Total sales for Bajaj Auto (BJAUT) rose 52% YoY with exports growing 36% while domestic sales posted a 70% growth. TVS Motor's (TVSL) export sales grew at a robust 138% YoY and total sales increased 123% to 323k units. 3W sales. Royal Enfield (RE) reported below-estimated 2W sales of 66k units (+84% YoY).

MHCV volumes improving steadily: Ashok Leyland's (AL) CV sales increased 7.9x YoY and 26% MoM to 17k units in March. For FY21, AL's sale volumes have plunged 20% YoY owing to a steep 34% drop in MHCVs while LCVs were up 5% YoY. TTMT's MHCV sales declined 35% in FY21 whereas LCVs fell 14%.

Strong momentum in tractor dispatches: MM sold 31k tractors (+2.3x YoY) in Mar'21, marginally lower than our expectations, while competitor Escorts (ESC) sold 12k units (+2.3x YoY). FY21 tractor sales for MM/ESC increased 17%/24% YoY. We have factored in healthy growth as the macro environment remains conducive but believe both stocks are pricing in most positives and carry unfavourable risk-reward.



Four-wheelers

FIG 1 – ASHOK LEYLAND

Segment	Mar-21	Mar-20	YoY (%)	Feb-21	MoM (%)	FY21	FY20	YoY (%)
M&HCV	11,101	1,831	506.3	7,802	42.3	51,820	78,609	(34.1)
LCV	6,130	348	1661.5	5,901	3.9	48,908	46,646	4.8
Total domestic sales	17,231	2,179	690.8	13,703	25.7	100,728	125,255	(19.6)

Source: Company, BOBCAPS Research

FIG 2 – MARUTI SUZUKI

Segment	Mar-21	Mar-20	YoY (%)	Feb-21	MoM (%)	FY21	FY20	YoY (%)
Domestic sales	155,417	79,080	96.5	152,983	1.6	1,361,722	1,461,126	(6.8)
Exports	11,597	4,712	146.1	11,486	1.0	96,139	102,171	(5.9)
Total sales	167,014	83,792	99.3	164,469	1.5	1,457,861	1,563,297	(6.7)

Source: Company, BOBCAPS Research

FIG 3 – MAHINDRA & MAHINDRA

Segment	Mar-21	Mar-20	YoY (%)	Feb-21	MoM (%)	FY21	FY20	YoY (%)
Passenger vehicles	16,700	3,384	393.5	15,391	8.5	157,216	186,978	(15.9)
- Utility vehicles	16,643	3,111	435.0	15,380	8.2	155,530	179,405	(13.3)
- Cars + Vans	57	273	(79.1)	11	418.2	1,686	7,573	(77.7)
Commercial vehicles	17,116	2,325	636.2	9,202	86.0	156,159	199,135	(21.6)
3-wheelers	4,461	421	959.6	2,357	89.3	20,525	62,187	(67.0)
Total domestic sales	38,277	6,130	524.4	26,950	42.0	333,900	448,300	(25.5)
Exports	2,126	554	283.8	1,827	16.4	18,381	27,026	(32.0)
Total auto sales	40,403	6,684	504.5	28,777	40.4	352,281	475,326	(25.9)
Tractor domestic	29,817	13,418	122.2	27,170	9.7	343,833	291,901	17.8
Tractor exports	1,153	195	491.3	976	18.1	10,665	10,014	6.5
Total tractor sales	30,970	13,613	127.5	28,146	10.0	354,498	301,915	17.4

Source: Company, BOBCAPS Research

FIG 4 – ESCORTS

Segment	Mar-21	Mar-20	YoY (%)	Feb-21	MoM (%)	FY21	FY20	YoY (%)
Tractors	12,337	5,444	126.6	11,230	9.9	106,741	86,018	24.1
Total sales	12,337	5,444	126.6	11,230	9.9	106,741	86,018	24.1

Source: Company, BOBCAPS Research

Two-wheelers

FIG 5 – HERO MOTOCORP

Segment	Mar-21	Mar-20	YoY (%)	Feb-21	MoM (%)	FY21	FY20	YoY (%)
2-wheelers	576,957	334,647	72.4	505,467	14.1	5,791,736	6,409,719	(9.6)
Total sales	576,957	334,647	72.4	505,467	14.1	5,791,736	6,409,719	(9.6)

Source: Company, BOBCAPS Research

FIG 6 – ROYAL ENFIELD

Segment	Mar-21	Mar-20	YoY (%)	Feb-21	MoM (%)	FY21	FY20	YoY (%)
Up to 350cc	58,471	30,372	92.5	64,362	(9.2)	557,864	619,898	(10.0)
Exceeding 350cc	7,587	5,442	39.4	5,297	43.2	54,105	75,941	(28.8)
Exports	5,885	3,184	84.8	4,545	29.5	38,622	39,188	(1.4)
Total sales	66,058	35,814	84.4	69,659	(5.2)	611,969	695,839	(12.1)

Source: Company, BOBCAPS Research

FIG 7 – TVS MOTOR

Segment	Mar-21	Mar-20	YoY (%)	Feb-21	MoM (%)	FY21	FY20	YoY (%)
Total 2-wheeler sales	307,437	133,990	129.4	284,481	8.1	2,928,797	3,089,559	(5.2)
Total 3-wheeler sales	15,246	10,751	41.8	13,166	15.8	123,596	173,911	(28.9)
Total sales	322,683	144,741	122.9	297,647	8.4	3,052,393	3,263,470	(6.5)

Source: Company, BOBCAPS Research

FIG 8 – BAJAJ AUTO

Segment	Mar-21	Mar-20	YoY (%)	Feb-21	MoM (%)	FY21	FY20	YoY (%)
Motorcycles	330,133	210,976	56.5	332,563	(0.7)	3,605,893	3,947,568	(8.7)
3-wheelers	39,315	31,599	24.4	42,454	(7.4)	367,021	667,644	(45.0)
Total sales	369,448	242,575	52.3	375,017	(1.5)	3,972,914	4,615,212	(13.9)
Exports of above	170,897	126,034	35.6	210,206	(18.7)	2,054,247	2,171,105	(5.4)

Source: Company, BOBCAPS Research

Dispatch trends worrying

FIG 9 – PRODUCTION AND SALES TREND FOR KEY OEMs (FROM SEP'20 – FEB'21)

(Nos)	MSIL	HMCL	BJAUT	TVSL	RE
Production	960,884	3,626,565	2,583,390	1,963,637	412,692
Sales	981,560	3,552,388	2,548,332	1,922,005	398,255
Excess	20,676	(74,177)	(35,058)	(41,632)	(14,437)

Source: Company, BOBCAPS Research

- Maruti Suzuki (TP Rs 6,900, SELL):** Fig 9 above indicates that MSIL dispatched ~21,000 vehicles more than it produced during the last six months. We believe finished goods inventory will rise hereon as supply-side issues could restrict monthly dispatches in the near term. Maintain SELL given high valuations amid limited growth visibility and potential margin pressure in a rising commodity price scenario.
- Hero Moto (TP Rs 2,900, SELL):** HMCL's finished goods inventory has risen 2% (~74,000 vehicles) over Sep'20-Feb'21. Our channel checks suggest that dealer inventories are also at normal levels, implying production could now reflect a direct correlation with retail sales. Any slowdown in retail offtake may lead to a production cut. Maintain SELL amidst rich valuations, rising inventory and margin stress due to higher commodity prices.
- Bajaj Auto (TP Rs 2,800, SELL):** Compared to HMCL, BJAUT appears to have taken timely action in restricting inventory buildup. However, the company makes higher margins in its 3W business where recovery could be delayed due to rising Covid-19 fears. Expensive valuations, slower margin recovery and rising commodity prices form the basis for our SELL rating.
- TVS Motor (TP Rs 350, SELL):** Like HMCL, TVSL has witnessed a rise of ~2% in finished goods inventory over the last six months. Our dealer checks suggest inventory is at peak levels and any slowdown in retail sales could have a direct impact on production going forward. The stock continues to be valued at a high premium compared to peers on hopes of a stronger margin performance. Maintain SELL as the current single-digit EBITDA margin is likely to come under significant pressure from rising input costs.
- Eicher Motor (TP Rs 2,200, SELL):** During the last six months, RE's production has been ~4% higher than its dispatches. Clearly, dispatches have slowed despite the success of the 'Meteor 350', adding to its internal finished goods inventory. In our view, the company is no longer in a position to pass on the entire cost burden and may thus witness margin headwinds. Retain SELL.

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BUY – Expected return >+15%

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

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

SELL – Expected return <-5%

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