

RESEARCH

Automobiles

India likely to mirror global EV adoption

SUMMARY

Automobiles

- EV 4W/2W share up to 14%/70% in key markets but regulatory support key as costs higher vs. ICE and charging infrastructure lacking
- EV OEMs have outperformed globally and trade at large premium to ICE players. Market cap of top 9 EV OEMs +80% that of top 30 ICE OEMs
- India likely to follow these trends as regulatory support and shareholder pressure nudge companies towards electrification

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Daily macro indicators

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.57	6bps	29bps	82bps
India 10Y yield (%)	6.33	1bps	13bps	39bps
USD/INR	75.26	0.2	(2.1)	(2.6)
Brent Crude (US\$/bbl)	84.86	1.0	15.3	97.7
Dow	35,295	1.1	2.1	23.4
Shanghai	3,572	0.4	(2.5)	7.1
Sensex	61,306	0.9	5.3	53.3
India FII (US\$ mn)	13-Oct	MTD	CYTD	FYTD
FII-D	8.5	(264.6)	(189.6)	1,837.7
FII-E	166.4	300.9	8,830.8	1,504.5

Source: Bloomberg

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AUTOMOBILES

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TPG's US\$ 9bn acquisition of 11-15% stake in Tata Motors' (TTMT, Not Rated) EV division follows global auto investment trends. We highlight some trends in this note:

EVs staging rapid growth: 4W EV sales have grown in the range of 26-79% CAGR during 2015-20 to 2.3mn units in China, US and the top 3 European markets, with the share of new sales at 2.2-14%. In Europe, seven OEMs will go 100% electric by 2030. In 2Ws, EVs are even more established with 25mn units sold and the share of new sales at ~70% in China and ~14% in Vietnam. China's Yadea EV unit sales now match those of India's largest 2W producer Hero Motocorp.

Regulatory support remains crucial: EV costs remain higher than ICE equivalent models and hence regulatory support continues to be a key driver. Subsidies, preferential permits, lower charging rates and tolls are some of the incentives being offered to consumers. Some countries are also capping OEM ICE model production volumes or average emissions across models, besides supporting EV charging infrastructure. The EU aims to have one charger for every ten vehicles and proposes to offer customers a right to request for a charging station. Gogoro has built a battery swapping network in Taiwan that will also be expanded in India and China.

5 of top 20 auto players by market cap are EV pure plays: EV OEM stock prices globally have risen by 2.5-24.5x in the last five years whereas the top 30 ICE OEM stocks have risen by less than 2x. Combined market cap of the top 9 EV OEMs is +80% of the top 30 ICE OEMs. Enterprise value/sales average at 14.9x vs. 0.9-2.9x for the top 30 ICE OEMs despite low profitability, indicating investor confidence in the structural shift towards EVs. TPG's investment in TTMT's EV arm is likely to be followed by Volkswagen's hive-off of its EV battery business and Ola Electric's IPO.

Learnings for India: Subsidies on sale remain an important tool apart from incentives such as free/dedicated parking and toll exemptions. The charging network will also need to be developed through policy support. India's upcoming CAFE norms to reduce corporate emissions to 113gm per kilometre from 130gm starting Apr'22, while still looser than the EU norms (95gm), should put OEMs on the path of electrification.

Recommendation snapshot

Ticker	Price	Target	Rating
BJAUT IN	3,916	3,200	SELL
HMCL IN	2,904	2,900	HOLD
MM IN	911	630	SELL
MSIL IN	7,657	8,000	HOLD
TVSL IN	586	480	SELL

Price & Target in Rupees | Price as of 18 Oct 2021



Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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