

RESEARCH

Automobiles

Lockdowns and plant shutdowns dent May'21 dispatches

SUMMARY

Automobiles

- With most OEMs opting to partly shut down plants due to Covid-19, dispatches posted a steep sequential decline in May
- 2W inventory remains high at over 45 days and hence we expect production to be curtailed; PV inventory is stable
- CVs/3Ws continue to be the worst hit while we believe tractors will rebound led by steady rural macro conditions

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TOP PICKS

Large-cap ideas

Company	Rating	Target
TCS	Buy	3,780
Tech Mahindra	Buy	1,190
Tata Power	Buy	131

Mid-cap ideas

Company	Rating	Target
Alkem Labs	Buy	3,620
Aianta Pharma	Buy	2,300
Alembic Pharma	Buy	1,230

Source: BOBCAPS Research

Daily macro indicators

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.59	(1bps)	(3bps)	94bps
India 10Y yield (%)	6.02	2bps	(1bps)	25bps
USD/INR	72.62	(0.2)	2.0	3.9
Brent Crude (US\$/bbl)	69.32	(0.4)	3.1	80.9
Dow	34,529	0.2	1.9	35.5
Shanghai	3,615	0.4	4.9	24.0
Sensex	51,937	1.0	6.5	56.0
India FII (US\$ mn)	28 May	MTD	CYTD	FYTD
FII-D	(187.4)	(114.6)	(2,506.9)	(479.6)
FII-E	58.1	36.9	5,874.1	(1,452.2)

Source: Bank of Baroda Economics Research

BOBCAPS Research

researchreport@bobcaps.in



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

Lockdowns exact toll on domestic PV sales: Maruti's total (MSIL) dispatches at 46k (-71% MoM) in May were affected as plants remained non-operational due to Covid-19 lockdowns and diversion of oxygen from industrial use for medical purposes from 1-16 May. Domestic sales fell 75% MoM while exports declined 35% MoM. M&M's (MM) PV sales shrank 56% MoM though management is confident of a demand rebound as the booking run-rate remains healthy despite extended waiting periods across models. Sales for TTMT fell 40% MoM while Hyundai posted a 50% decline.

2W exports cushion sales: Hero's (HMCL) wholesale volumes dropped by a sharp 51% MoM to 183k units, affected by temporary plant shutdowns. Bajaj Auto's (BJAUT) total volumes fell 30% MoM as domestic sales halved sequentially and exports declined 17% MoM. TVS Motor's (TVSL) overall sales reduced 30% MoM to 167k units, with domestic sales falling by a sharper 60% MoM but cushioned by a 7% rise in exports. Royal Enfield (RE) reported 2W sales of 27k units (-49% MoM).

CV sales slip: With production plants running for only 7-15 days for AL, its CV sales slumped 62% MoM as MHCV/LCV volumes plunged 55%/69%. AL announced that its plants would be operational only for 5-10 days in June as well. For TTMT, domestic CV sales fell 35% MoM with MHCVs/LCVs down 40%/32% and the fall in exports restricted to 8% MoM.

Tractor sales to rebound: With Covid-19 more widespread in rural areas, purchase deferrals and limited dealer operations, tractor sales languished in May. MM sold 24k tractors (-12% MoM) during the month and expects the tractor industry to record mid-single-digit growth for FY22. Escorts (ESC) sold 6.4k tractors, clocking 5% MoM growth. Per the company, ground activities have picked up in recent days as peak buying season begins, and the demand situation is likely to normalise soon. We have factored in a 6% CAGR in tractor industry sales over FY21-FY23 as the macro environment remains conducive.

Recommendation snapshot

Ticker	Price	Target	Rating
AL IN	122	60	SELL
BJAUT IN	4,238	3,200	SELL
ESC IN	1,162	1,350	BUY
HMCL IN	2,976	2,900	REDUCE
MM IN	806	630	SELL
MSIL IN	7,091	8,000	BUY
TVSL IN	613	480	SELL
VSTT IN	1,926	2,300	BUY

Price & Target in Rupees | Price as of 1 Jun 2021



Disclaimer

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

BUY – Expected return >+15%

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

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

SELL – Expected return <-5%

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

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