# Automobile & Auto Ancillary

Institutional Equity Research

Results Preview | 09 October 2021

## Subdued Results on Weak Volume Performance

Domestic automobile industry delivered a subdued volume performance, with YoY decline in 2QFY22 due to disruptions led by the second COVID wave and chip shortages. Though a steady ease in lockdown/curbs improved the automobile sales, semi-conductor shortages impacted the production and supply. Incremental opening-up of economic activities, pent-up demand and improving sentiment across the country resulted in better sales towards start of the quarter. Notably, the CV and 3W industry witnessed an improvement in sales volume, while 2Ws remained laggards. On the other hand, exports markets witnessed a sharp uptick in sales volume. Inventory level across the automobile segments remained slightly higher than the normal level at the quarter-end. While companies hiked prices across segments to mitigate the higher commodity prices, the quantum of hike was not commensurate with cost escalation. Discounts/offers were also inched up due to the weak demand scenario. Tight cost control measures and economies of scale would negate the adverse impact of higher RM cost to some extent. However, a sharp run-up in the commodity cost would impact the overall margin of auto companies, despite a price hike. Within the automobile segment, CV and 3W segments withstood remarkable improvement with healthy YoY and QoQ growth.

We expect the companies having a higher exposure to overseas markets to report a relatively better performance owing to the faster recovery in global auto sales. The companies with a higher exposure to CVs and 3Ws in the domestic market would also benefit due to demand revival in these segments. Further, tyre manufacturers are expected to witness a margin pressure due to the higher RM cost and a limited ability to pass on the cost escalation.

### Result Expectations

Auto companies under our coverage universe are expected to witness 11% YoY growth (up 3% QoQ) in revenue, while higher RM cost and lower scale would impact their profitability. EBITDA margin of our automobile coverage universe is expected to decline by 366bps YoY (down 19bps QoQ) to 8.6%, while PAT is expected to decrease by 95% YoY (as against a huge loss reported by our coverage universe in 1QFY22). We expect PAT of our auto coverage universe (ex-TTMT) to decline by 11% YoY (up 55% QoQ), while TTMT is expected to report a quarterly loss of Rs47bn.

Most companies within the OEM space and auto ancillary segment are expected to report a profit in 2QFY22, barring Ashok Leyland (AL) and Tata Motors (TTMT). We expect TTMT to report Rs47bn net loss during the quarter. On the other hand, Bharat Forge (BHFC) is seen as an outlier, as we expect a strong 55x YoY (up 15% QoQ) growth in net profit to Rs2.4bn on low base.

We expect Bajaj Auto (BAL) to report a higher PAT due to increased exports at a favourable exchange rate and lower tax rate, despite higher commodity cost. We expect M&M (MM) to deliver better performance due to better PV volumes, despite lower tractor volumes, while Escorts (ESC) would deliver a decent performance due to improvement in construction equipment business, despite lower tractor volume. While AL and TTMT are expected to report a net loss, all companies within our coverage universe like Maruti Suzuki (MSIL), Hero MotoCorp (HMCL), TVS Motor (TVSL), Apollo Tyres (APTY), JK Tyre (JKT), CEAT, Minda Industries (MNDA), Bharat Forge (BHFC) and RK Forgings (RFL) are expected to report a decent profit in 2QFY22. TTMT is expected to report Rs47bn net loss (vs. Rs6bn net loss in 1QFY22) due to a weak JLR performance, impacted by semiconductor shortage.

**Our View:** We expect the automobile industry to witness a volume improvement across segments with festival season kicking in 2HFY22E. While we believe an increasing COVID vaccination coverage and several government initiatives would support auto sales in 2HFY22, we do not expect the quantum and pace of recovery to be as high and sharp in the coming festive season, as witnessed in last year. We expect some improvement in semiconductor supply but issue would continue till FY22-end. We expect the rural economy to get healthy traction led by a healthy agri output and favourable monsoon, which would continue to support the companies on the volume front. We believe the CV segment to outperform the industry, while within this segment, M&HCV would stage a strong bounce-back with ~100% YoY growth in FY22E. Thus, we remain constructive on the automobile sector and maintain a positive stance on the M&HCV segment. At this juncture, we prefer the global plays compared to pure domestic plays due to a better traction in the global markets.

**Top Picks: Ashok Leyland, Tata Motors, Bharat Forge and RK Forgings**

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**Exhibit 1: Quarterly Estimates**

| Company Y/E Mar | Revenue (Rs mn) | | | | | EBITDA (Rs mn) | | | | | PAT (Rs mn) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Sept' 21E | Sept' 20 | YoY (%) | Jun' 21 | QoQ (%) | Sept' 21E | Sept' 20 | YoY (%) | Jun' 21 | QoQ (%) | Sept' 21E | Sept' 20 | YoY (%) | Jun' 21 | QoQ (%) |
| Ashok Leyland | 44,499 | 28,366 | 56.9 | 29,510 | 50.8 | 1,387 | 804 | 72.4 | (1,401) | (199) | (1,036) | (1,450) | NA | (2,806) | NA |
| Bajaj Auto | 84,149 | 71,559 | 17.6 | 73,860 | 13.9 | 12,769 | 12,657 | 0.9 | 11,198 | 14.0 | 11,904 | 11,377 | 4.6 | 10,612 | 12.2 |
| Hero MotoCorp | 78,105 | 93,673 | (16.6) | 54,871 | 42.3 | 8,691 | 12,864 | (32.4) | 5,148 | 68.8 | 6,432 | 9,535 | (32.5) | 3,654 | 76.0 |
| Maruti Suzuki | 1,92,306 | 1,87,445 | 2.6 | 1,77,707 | 8.2 | 11,451 | 19,336 | (40.8) | 8,211 | 39.5 | 7,780 | 13,716 | (43.3) | 4,408 | 76.5 |
| M&M+MVML | 1,24,007 | 1,15,903 | 7.0 | 1,17,628 | 5.4 | 16,696 | 20,573 | (18.8) | 16,317 | 2.3 | 14,643 | 13,112 | 11.7 | 9,341 | 56.8 |
| Tata Motors | 5,99,970 | 5,35,300 | 12.1 | 6,64,065 | (9.7) | 37,400 | 56,653 | (34.0) | 52,576 | (28.9) | (47,448) | (6,210) | NA | (44,385) | NA |
| TVS Motor | 54,486 | 46,055 | 18.3 | 39,344 | 38.5 | 4,512 | 4,301 | 4.9 | 2,738 | 64.8 | 2,156 | 1,963 | 9.8 | 754 | 186 |
| Escorts | 15,638 | 16,397 | (4.6) | 16,715 | (6.4) | 2,072 | 3,009 | (31.1) | 2,332 | (11.2) | 1,704 | 2,299 | (25.9) | 1,852 | (8.0) |
| Apollo Tyre | 49,814 | 42,827 | 16.3 | 45,845 | 8.7 | 6,283 | 6,948 | (9.6) | 5,668 | 10.9 | 1,500 | 2,042 | (26.6) | 1,285 | 16.7 |
| CEAT | 22,803 | 19,785 | 15.3 | 19,064 | 19.6 | 2,256 | 2,925 | (22.9) | 1,662 | 35.8 | 753 | 1,819 | (58.6) | 240 | 214 |
| J K Tyres | 27,997 | 22,748 | 23.1 | 26,084 | 7.3 | 2,983 | 3,550 | (16.0) | 2,795 | 6.7 | 766 | 915 | (16.3) | 532 | 44.0 |
| RK Forging | 5,160 | 2,525 | 104 | 4,129 | 25.0 | 1,130 | 456 | 148 | 953 | 18.5 | 413 | 21 | 1,895 | 246 | 68.0 |
| Bharat Forge | 21,314 | 13,761 | 54.9 | 21,077 | 1.1 | 4,833 | 1,656 | 192 | 4,546 | 6.3 | 2,376 | 42 | 5,507 | 2,065 | 15.1 |
| Minda Industries | 18,109 | 14,650 | 23.6 | 16,026 | 13.0 | 2,002 | 2,154 | (7.1) | 1,467 | 36.5 | 573 | 808 | (29.1) | 154 | 272 |
| | | | | | | | | | | | | | | | |
| **Aggregate** | **13,38,356** | **12,10,994** | **10.5** | **13,05,923** | **2.5** | **1,14,463** | **1,47,886** | **(22.6)** | **1,14,209** | **0.2** | **2,516** | **49,989** | **(95.0)** | **(12,049)** | **NA** |

*Source: Company, RSec Research; Note: NA-Not Applicable*

## Result Preview Section

**Exhibit 2: Automobiles - 2QFY22 Results Preview**

| Company (Rs mn) (Y/E Mar) | Sept' 21E | Sept' 20 | YoY (%) | Jun' 21 | QoQ (%) | Result expectations |
|---|---|---|---|---|---|---|
| **Ashok Leyland** | | | | | | |
| Sales | 44,499 | 28,366 | 56.9 | 29,510 | 50.8 | ▶ Overall volume grew by 30% YoY (up 41% QoQ), with 51% YoY growth (up 32% QoQ) in M&HCV volume and 16% YoY growth (up 49% QoQ) in LCV volume. The Average Selling Price (ASP) is likely to grow by 20% YoY (up 7% QoQ) due to the price hike and improved product-mix. Discounts and higher commodity cost would impact the company's operating margin. |
| EBITDA | 1,387 | 804 | 72.4 | (1,401) | NA | |
| EBITDA margin (%) | 3.1 | 2.8 | 28 bps | (4.7) | 786 bps | |
| PBT | (1,036) | (1,578) | NA | (3,826) | NA | |
| PAT | (1,036) | (1,450) | NA | (2,806) | NA | |
| **Bajaj Auto** | | | | | | |
| Sales | 84,149 | 71,559 | 17.6 | 73,860 | 13.9 | ▶ Higher traction in the exports business coupled with an increased contribution of 3W sales is expected to improve its profitability. However, higher RM cost may impact its margin to some extent. We expect the margin to contract by 251bps YoY (flat on QoQ basis). |
| EBITDA | 12,769 | 12,657 | 0.9 | 11,198 | 14.0 | |
| EBITDA margin (%) | 15.2 | 17.7 | (251) bps | 15.2 | 1 bps | |
| PBT | 15,459 | 14,846 | 4.1 | 13,827 | 11.8 | |
| PAT | 11,904 | 11,377 | 4.6 | 10,612 | 12.2 | |
| **Hero MotoCorp** | | | | | | |
| Sales | 78,105 | 93,673 | (16.6) | 54,871 | 42.3 | ▶ Volume de-grew by 21% YoY (up 40% QoQ). Lower scale, pricing pressure and higher RM cost would impact its operating margin and profitability to some extent. |
| EBITDA | 8,691 | 12,864 | (32.4) | 5,148 | 68.8 | |
| EBITDA margin (%) | 11.1 | 13.7 | (261) bps | 9.4 | 174 bps | |
| PBT | 8,463 | 12,500 | (32.3) | 4,844 | 74.7 | |
| PAT | 6,432 | 9,535 | (32.5) | 3,654 | 76.0 | |
| **Maruti Suzuki** | | | | | | |
| Sales | 1,92,306 | 1,87,445 | 2.6 | 1,77,707 | 8.2 | ▶ Volume de-grew by 4% YoY (up 7% QoQ). Realisation is expected to increase by 6% YoY (up 1% QoQ) due to a better product-mix and price hikes. Lower volumes, pricing pressure and higher RM cost would result in margin contraction on a YoY basis. |
| EBITDA | 11,451 | 19,336 | (40.8) | 8,211 | 39.5 | |
| EBITDA margin (%) | 6.0 | 10.3 | (436) bps | 4.6 | 133 bps | |
| PBT | 10,104 | 17,478 | (42.2) | 5,635 | 79.3 | |
| PAT | 7,780 | 13,716 | (43.3) | 4,408 | 76.5 | |

*Note: NA-Not Applicable*

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**Automobiles - 2QFY22 Results Preview**

| Company (Rs mn) (Y/E Mar) | Sept' 21E | Sept' 20 | YoY (%) | Jun' 21 | QoQ (%) | Result expectations |
|---|---|---|---|---|---|---|
| **M&M+MVML** | | | | | | |
| Sales | 1,24,007 | 1,15,903 | 7.0 | 1,17,628 | 5.4 | ▶ 11% YoY growth (up 17% QoQ) and 5% YoY decline (down 11% QoQ) in automotive and tractor volume, respectively resulted in 3% YoY growth (up 2% QoQ) in total volume. A better product-mix, despite lower tractor contribution, would lead to 7% YoY growth (up 5% QoQ) in total revenue. An improved product-mix would negate the impact of higher RM cost to some extent. |
| EBITDA | 16,696 | 20,573 | (18.8) | 16,317 | 2.3 | |
| EBITDA margin (%) | 13.5 | 17.8 | (429) bps | 13.9 | (41) bps | |
| PBT | 18,895 | 17,364 | 8.8 | 12,069 | 56.6 | |
| PAT | 14,643 | 13,112 | 11.7 | 9,341 | 56.8 | |
| **Tata Motors** | | | | | | |
| Sales | 5,99,970 | 5,35,300 | 12.1 | 6,64,065 | (9.7) | ▶ Standalone volume grew by 55% YoY (up 49% QoQ), while JLR volume is likely to plunge by 20% YoY (down 25% QoQ), which will impact its consolidated revenue and earnings. Despite a better standalone CV performance, JLR's weak performance would drag the overall consolidated profitability, and we expect the company to report a sizable loss in this quarter. |
| EBITDA | 37,400 | 56,653 | (34.0) | 52,576 | (28.9) | |
| EBITDA margin (%) | 6.2 | 10.6 | (435) bps | 7.9 | (168) bps | |
| PBT | (40,743) | (8,147) | NA | (25,786) | NA | |
| PAT | (47,448) | (6,210) | NA | (44,385) | NA | |
| **TVS Motor** | | | | | | |
| Sales | 54,486 | 46,055 | 18.3 | 39,344 | 38.5 | ▶ Domestic volume decreased by 8% YoY (up 82% QoQ), while export volume grew by 46% YoY (down 4% QoQ), which resulted in 6% YoY (up 39% QoQ) growth in overall volume. Due to a better product-mix, price hike and strong exports, we expect ASP to grow by 12% YoY (down 1% QoQ). Better operating leverage coupled with strong exports would benefit the company on the margin front to some extent. |
| EBITDA | 4,512 | 4,301 | 4.9 | 2,738 | 64.8 | |
| EBITDA margin (%) | 8.3 | 9.3 | (106) bps | 7.0 | 132 bps | |
| PBT | 2,764 | 2,674 | 3.3 | 722 | 283 | |
| PAT | 2,156 | 1,963 | 9.8 | 754 | 186 | |
| **Escorts** | | | | | | |
| Sales | 15,638 | 16,397 | (4.6) | 16,715 | (6.4) | ▶ The company recorded a quarterly tractor volume of 21,073 units (down 14% YoY and down 19% QoQ). Its construction equipment business grew by 31% YoY (up 77% QoQ). Overall margin would decline on a YoY and QoQ basis due to the lower margin in tractor segment and higher RM cost. |
| EBITDA | 2,072 | 3,009 | (31.1) | 2,332 | (11.2) | |
| EBITDA margin (%) | 13.2 | 18.3 | (510) bps | 14.0 | (71) bps | |
| PBT | 2,213 | 3,078 | (28.1) | 2,461 | (10.1) | |
| PAT | 1,704 | 2,299 | (25.9) | 1,852 | (8.0) | |

*Note: NA-Not Applicable*

*Continued...*

**Automobiles - 2QFY22 Results Preview**

| Company (Rs mn) (Y/E Mar) | Sept' 21E | Sept' 20 | YoY (%) | Jun' 21 | QoQ (%) | Result expectations |
|---|---|---|---|---|---|---|
| **Auto Ancillary** | | | | | | |
| **RK Forging** | | | | | | |
| Sales | 5,160 | 2,525 | 104 | 4,129 | 25.0 | ▶ Volume is expected to grow by 76% YoY (up 25% QoQ) due to the higher M&HCV volume, while ASP is expected to grow by 15% YoY (flat on a QoQ basis). We expect a YoY improvement in margin on the back of better operating leverage and higher margin sensitivity. |
| EBITDA | 1,130 | 456 | 148 | 953 | 18.5 | |
| EBITDA margin (%) | 21.9 | 18.1 | 384 bps | 23.1 | (119) bps | |
| PBT | 551 | 27 | 1,959 | 370 | 48.9 | |
| PAT | 413 | 21 | 1,895 | 246 | 68.0 | |
| **CEAT** | | | | | | |
| Sales | 22,803 | 19,785 | 15.3 | 19,064 | 19.6 | ▶ We expect a decent volume growth in OEM segment, while a noticeable improvement in the replacement segment would transform into double-digit revenue growth on a YoY basis. EBITDA margin is expected to witness a YoY contraction due to the commodity cost pressure. Higher depreciation and interest expenses would impact its bottom line. Overall, the company's financial performance would see a sequential growth. |
| EBITDA | 2,256 | 2,925 | (22.9) | 1,662 | 35.8 | |
| EBITDA margin (%) | 9.9 | 14.8 | (489) bps | 8.7 | 118 bps | |
| PBT | 885 | 1,674 | (47.1) | 276 | 221 | |
| PAT | 753 | 1,819 | (58.6) | 240 | 214 | |
| **Apollo Tyre** | | | | | | |
| Sales | 49,814 | 42,827 | 16.3 | 45,845 | 8.7 | ▶ We expect a double-digit YoY growth in domestic OEM as well as replacement volume, while the company's European operations would face some challenges. However, we expect its revenue to increase by 16% YoY (up 9% QoQ), led by a decent YoY growth in replacement volume and strong CV-OEM segment. While EBITDA margin is expected to expand on a QoQ basis, it is likely to contract by 361bps YoY due to the higher RM cost and lower price hike. A higher depreciation and interest expenses would impact its bottom line. |
| EBITDA | 6,283 | 6,948 | (9.6) | 5,668 | 10.9 | |
| EBITDA margin (%) | 12.6 | 16.2 | (361) bps | 12.4 | 25 bps | |
| PBT | 1,923 | 2,857 | (32.7) | 1,623 | 18.5 | |
| PAT | 1,500 | 2,042 | (26.6) | 1,285 | 16.7 | |
| **J K Tyres** | | | | | | |
| Sales | 27,997 | 22,748 | 23.1 | 26,084 | 7.3 | ▶ We expect a decent market share gain due to additional capacity, while the company's OEM sales would also witness a steady improvement. Its Mexican operation would report a profit. Better operations in both the markets would result in 23% YoY (up 7% QoQ) revenue growth. An inferior product-mix and higher input cost are expected to impact its EBITDA margin, both on a YoY and QoQ basis. |
| EBITDA | 2,983 | 3,550 | (16.0) | 2,795 | 6.7 | |
| EBITDA margin (%) | 10.7 | 15.6 | (495) bps | 10.7 | (6) bps | |
| PBT | 1,025 | 1,467 | (30.1) | 853 | 20.1 | |
| PAT | 766 | 915 | (16.3) | 532 | 44.0 | |

*Note: NA-Not Applicable*

*Continued...*

**Automobiles - 2QFY22 Results Preview**

| Company (Rs mn) (Y/E Mar) | Sept' 21E | Sept' 20 | YoY (%) | Jun' 21 | QoQ (%) | Result expectations |
|---|---|---|---|---|---|---|
| **Bharat Forge** | | | | | | |
| Sales | 21,314 | 13,761 | 54.9 | 21,077 | 1.1 | ▶ Overall volume is expected to grow by 43% YoY (up 9% QoQ) due to a better traction in the US business. ASP is expected to increase by 21% YoY (up 2% QoQ) due to increase in commodity cost, while operating leverage would support the company's profitability. |
| EBITDA | 4,833 | 1,656 | 192 | 4,546 | 6.3 | |
| EBITDA margin (%) | 22.7 | 12.0 | 1064 bps | 21.6 | 110 bps | |
| PBT | 3,097 | 326 | 851 | 2,785 | 11.2 | |
| PAT | 2,376 | 42 | 5,507 | 2,065 | 15.1 | |
| **Minda Industries** | | | | | | |
| Sales | 18,109 | 14,650 | 23.6 | 16,026 | 13.0 | ▶ Though a low-volume traction in PVs and 2W segments impacts MNDA's volume, value addition would help the company to lower its impact on the margin front. Its revenue is expected to increase by 24% YoY (up 13% QoQ), while EBITDA margin is expected to contract by 365bps YoY, due to the higher input cost. |
| EBITDA | 2,002 | 2,154 | (7.1) | 1,467 | 36.5 | |
| EBITDA margin (%) | 11.1 | 14.7 | (365) bps | 9.2 | 190 bps | |
| PBT | 957 | 1,288 | (25.7) | 438 | 118 | |
| PAT | 573 | 808 | (29.1) | 154 | 272 | |

*Source: Company, RSec Research; Note: NA-Not Applicable*

## Change in Ratings

We have changed our rating system and included **HOLD** recommendation. We have **BUY, HOLD and SELL** recommendation now.

We have also shifted to **1-Year Target Price** from **2-Year Target Price**.

Mitul Dilipkumar Shah

Digitally signed by Mitul Dilipkumar Shah
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