

Automobile Sector

Institutional Equity Research

Monthly Quick View - Dec'21 | 14 January 2022

Weaker Demand and Rising Covid Caseload Impact Performance

As per the Society of Indian Automobile Manufacturers (SIAM), domestic auto sales volume (excluding CVs) de-grew by 11% YoY (down 3% MoM) to 12,53,604 units in Dec'21. Notably, various segments of the automobile industry witnessed a subdued YoY performance, with PV & 2W seeing the higher decline due to semiconductor supply issues and weak rural demand. Moreover, rapidly rising Covid cases towards end of the month also resulted into negative sentiment across country and led to lower retail sales across segments. Few segments like 3Ws and Bus segments reported growth on a lower base, while some markets appeared to witness a subdued performance, particularly rural market, due to slower recovery. Overall, the retail sales volume this time is assumed to be more or less in line with wholesale.

PV Segment: Overall, PV volume de-grew by 13% YoY (up 2% MoM) to 2,19,421 units, primarily impacted by semiconductor supply shortage. Its UV sales grew by 3% YoY (down 8% MoM), led by a higher production of new models by key OEMs. While MPV volume de-grew by 17% YoY and 2% MoM, PC sales decreased by 23% YoY (up 12% MoM) in Dec'21. Semiconductor issue eased out bit sequentially but remained unresolved fully, impacting YoY production. Therefore, waiting period for most products still remains high.

Scooter & Motorcycle Segment: Scooter sales de-grew by 24% YoY (down 20% MoM), while motorcycle sales fell by 2% YoY (up 4% MoM). Overall, domestic 2W volume de-grew by 11% YoY (down 4% MoM). Moped sales de-grew by 44% YoY (down 22% MoM). Further, 2W production was 5% lower than the sales in Dec'21. Overall, two-wheeler sales were impacted due to the weaker rural demand, amid untimely rainfall.

3W Segment: Domestic 3W sales increased by 25% each on YoY and MoM basis to 28,111 units on a low base. 3W passenger carriers' sales volume grew by 57% YoY and 31% MoM, while 3W goods carriers' sales volume de-grew by 23% YoY (up 9% MoM) in Dec'21.

CV Segment: SIAM has stopped reporting the monthly CV volume performance since the beginning of FY21 due to unavailability of monthly CV volume data of select OEMs, and hence reports a quarterly volume performance. Thus, we analyse the data on a quarterly basis. During 3QFY22, overall domestic CV volume increased by 1% YoY (up 17% QoQ) to 1,94,712 units with M&HCVs increasing by 25% YoY (up 20% QoQ) to 63,964 units and LCV declining by 8% YoY (up 16% QoQ) to 1,30,748 units.

Exports: Overall, exports de-grew marginally by 0.1% YoY (up 4% MoM) to 4,63,176 units. PV exports de-grew by 4% YoY (up 24% MoM), while 3W exports increased by 11% YoY (up 1% MoM). Motorcycle exports grew by 1% YoY (up 3% MoM) in Dec'21. While container availability and geopolitical issues in few regions impacted exports sales, it is expected to improve in the coming months and would report a double-digit growth in FY22E.

Inventory: In the PV segment, there was no inventory at the company level, as production and sales volume were at the same level. In the 2W segment, inventory decreased at the company level, as production was 5% lower than the sales volume.

Our View: Considering a rising Covid cases we expect demand to remain subdued over next 1-2 months, while rapid vaccination and increasing coverage would result into gradual recovery towards FY22-end. We expect retail demand across segments to witness some recovery going forward in FY23. We expect the impact of a slower recovery on auto makers' profitability in 3QFY22 to continue, due to the higher commodity cost and lag effect of passing on the same to end customers. Moreover, this impact on margins would be felt in 4QFY22 as well. However, we believe that recent softening in commodity cost and volume recovery would improve operating margins in FY23, as against our expectation of likely recovery in 4QFY22 due to delay on account of recent surge in Covid cases. Moreover, semiconductors supply constraints and container availability issues are expected to impact sales and production in the near term, which we believe would get resolved in FY23. We expect the 3Ws and M&HCV segment to witness a strong double-digit volume growth in FY22E and FY23E. We believe the long-term fundamentals continue to remain intact for the automobile sector. **We believe that now it is time to take a contrarian view on the two-wheeler segment, post a sharp correction in stock prices. We expect the 2W segment to bounce back in domestic as well as exports in FY23. Along with a valuation comfort, the risk-reward is highly favourable, which would give a strong outperformance going ahead. We also like PV segment amid number of new launches next year and strong demand outlook supported by healthy order book. Therefore, Maruti Suzuki, Bajaj Auto and TVS Motor continue to remain as our top picks.**

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Exhibit 1: Auto Sales - Domestic

Domestic	Dec' 21	Dec' 20	YoY (%)	Nov' 21	MoM (%)	YTD 22	YTD 21	YoY (%)
Passenger Cars	1,12,873	1,46,864	(23.1)	1,00,906	11.9	10,29,765	10,28,101	0.2
Utility Vehicles	97,137	94,787	2.5	1,05,091	(7.6)	10,36,006	6,77,107	53.0
Vans	9,411	11,347	(17.1)	9,629	(2.3)	83,067	72,666	14.3
Passenger Vehicles	2,19,421	2,52,998	(13.3)	2,15,626	1.8	21,48,838	17,77,874	20.9
Passenger Carrier	21,205	13,489	57.2	16,159	31.2	1,23,279	77,734	58.6
Goods Carrier	6,906	8,987	(23.2)	6,312	9.4	54,498	54,952	(0.8)
Three Wheelers	28,111	22,476	25.1	22,471	25.1	1,77,777	1,32,686	34.0
Scooters	2,46,080	3,23,757	(24.0)	3,06,899	(19.8)	29,56,153	31,04,530	(4.8)
Motorcycles	7,26,587	7,44,237	(2.4)	6,99,949	3.8	67,95,894	72,00,547	(5.6)
Mopeds	33,395	59,923	(44.3)	42,558	(21.5)	3,63,868	4,62,107	(21.3)
Two wheelers	10,06,062	11,27,917	(10.8)	10,50,616	(4.2)	1,01,15,915	1,07,67,184	(6.0)
Quadricycle	10	-	NA	46	(78.3)	64	(27)	NA
Grand Total	12,53,604	14,03,391	(10.7)	12,88,759	(2.7)	1,29,09,357	1,30,35,920	(1.0)

Source: SIAM; Note: NA - Not Applicable

Exhibit 2: CV Sales – Domestic

Domestic	3QFY22	3QFY21	YoY (%)	2QFY22	QoQ (%)	YTD 22	YTD 21	YoY (%)
Passenger Carriers	3,615	1,719	110.3	1,739	107.9	6,440	2,578	149.8
Goods Carriers	60,349	49,473	22.0	51,740	16.6	1,40,161	77,576	80.7
M&HCVs	63,964	51,192	24.9	53,479	19.6	1,46,601	80,154	82.9
Passenger Carriers	3,535	2,801	26.2	5,188	(31.9)	13,020	7,426	75.3
Goods Carriers	1,27,213	1,39,041	(8.5)	1,07,584	18.2	3,07,142	2,70,623	13.5
LCVs	1,30,748	1,41,842	(7.8)	1,12,772	15.9	3,20,162	2,78,049	15.1
Commercial Vehicles	1,94,712	1,93,034	0.9	1,66,251	17.1	4,66,763	3,58,203	30.3

Source: SIAM

Exhibit 3: Auto Sales - Export

Export	Dec' 21	Dec' 20	YoY (%)	Nov' 21	MoM (%)	YTD 22	YTD 21	YoY (%)
Passenger Cars	36,850	36,154	1.9	29,914	23.2	2,75,728	1,90,592	44.7
Utility Vehicles	17,770	20,632	(13.9)	14,173	25.4	1,46,688	99,701	47.1
Vans	226	264	(14.4)	178	27.0	1,621	877	84.8
Passenger Vehicles	54,846	57,050	(3.9)	44,265	23.9	4,24,037	2,91,170	45.6
Passenger Carrier	41,534	38,273	8.5	41,852	(0.8)	3,78,588	2,68,125	41.2
Goods Carrier	1,374	340	304.1	579	137.3	7,459	3,269	128.2
Three Wheelers	42,908	38,613	11.1	42,431	1.1	3,86,047	2,71,394	42.2
Scooters	21,728	26,767	(18.8)	24,481	(11.2)	2,70,289	1,49,655	80.6
Motorcycles	3,42,698	3,39,194	1.0	3,31,992	3.2	30,62,369	20,20,915	51.5
Mopeds	744	1,560	(52.3)	186	300.0	8,464	6,539	29.4
Two wheelers	3,65,170	3,67,521	(0.6)	3,56,659	2.4	33,41,122	21,77,109	53.5
Quadricycle	252	618	(59.2)	294	(14.3)	4,139	2,257	83.4
Grand Total	4,63,176	4,63,802	(0.1)	4,43,649	4.4	42,20,284	27,72,224	52.2

Source: SIAM

Exhibit 4: CV Sales – Export

Exports	3QFY22	3QFY21	YoY (%)	2QFY22	QoQ (%)	YTD 22	YTD 21	YoY (%)
Passenger Carriers	1,645	1,651	(0.4)	1,239	32.8	3,804	2,829	34.5
Goods Carriers	7,094	3,960	79.1	6,380	11.2	18,556	6,915	168.3
M&HCVs	8,739	5,611	55.7	7,619	14.7	22,360	9,744	129.5
Passenger Carriers	441	369	19.5	597	(26.1)	1,248	908	37.4
Goods Carriers	16,886	10,776	56.7	14,651	15.3	41,331	19,642	110.4
LCVs	17,327	11,145	55.5	15,248	13.6	42,579	20,550	107.2
Commercial Vehicles	26,066	16,756	55.6	22,867	14.0	64,939	30,294	114.4

Source: SIAM

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**.

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