

Automobile Sector

Institutional Equity Research

Monthly Quick View - Mar'22 | 14 April 2022

Weaker Demand to Impact 4QFY22 Performance

As per the Society of Indian Automobile Manufacturers (SIAM), domestic auto sales volume (excluding CVs) de-grew by 18% YoY (up 13% MoM) to 14,95,848 units in Mar'22. 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, ongoing geopolitical issue has impacted consumer sentiment to some extent. Though overall demand remained subdued, there was MoM improvement in rural demand. Overall, the wholesale volume was higher than the retail due to inventory built up ahead of auspicious Navratri festival. Within auto space CV segment performed better due to year ending purchases to avail depreciation benefit.

PV Segment: Overall, PV volume de-grew by 4% YoY (up 6% MoM) to 2,79,501 units, primarily impacted by semiconductor supply shortage. Its UV sales grew by 8% YoY (up 10% MoM), led by a higher production of new models by key OEMs. While MPV volume de-grew by 19% YoY (up 2% MoM), PC sales decreased by 12% YoY (up 3% MoM) in Mar'22. Semiconductor issue eased out bit sequentially due to diversion of some shipments from Russia to Asian countries amid ongoing geopolitical issue but remained unresolved fully, impacting YoY production. Therefore, waiting period for most products still remains high.

Scooter & Motorcycle Segment: Scooter sales de-grew by 21% YoY (up 5% MoM), while motorcycle sales fell by 21% YoY (up 20% MoM). Overall, domestic 2W volume de-grew by 21% YoY (up 14% MoM). Moped sales de-grew by 16% YoY (up 5% MoM). Further, 2W production was 2% higher than the sales in Mar'22. Overall, two-wheeler sales were impacted due to the weaker rural demand, amid untimely rainfall.

3W Segment: Domestic 3W sales decreased by 1% YoY (up 19% MoM) to 32,088 units on a low base. 3W passenger carriers' sales volume grew by 6% YoY (up 19% MoM), while 3W goods carriers' sales volume de-grew by 14% YoY (up 18% MoM) in Mar'22.

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 4QFY22, overall domestic CV volume increased by 19% YoY (up 28% QoQ) to 2,49,806 units with M&HCVs increasing by 17% YoY (up 47% QoQ) to 93,974 units and LCV increasing by 20% YoY (up 19% QoQ) to 1,55,832 units.

Exports: Overall, exports grew by 3% YoY (down 3% MoM) to 4,51,058 units. PV exports grew by 53% YoY (up 20% MoM), while 3W exports decreased by 3% YoY (up 7% MoM). Motorcycle exports grew by 1% YoY (down 6% MoM) in Mar'22. While container availability and geopolitical issues in few regions impacted exports sales, it is expected to improve in the coming month.

Inventory: In the PV segment, inventory decreased at the company level, as production was 4% lower than the sales volume. In the 2W segment, inventory increased at the company level, as production was 2% higher than the sales volume.

Our View: Due to ongoing slowdown and negative implications of geopolitical issue, we expect demand to remain subdued over next 1-2 months, while gradual recovery is expected towards end of 1QFY23. Moreover, recent global geopolitical issues amid Russia-Ukraine war have negative impact on business environment, which creates negative demand sentiment for consumption. We expect the impact of a slower recovery and higher raw material cost on auto makers' profitability in 4QFY22, due to sharp run up in commodity cost and lag effect of passing on the same to end customers. Moreover, its impact on margins would be felt in 1QFY23 as well. However, we believe that gradual price hike and volume recovery would improve operating margins in 2HFY23, as against our expectation of likely recovery in 1HFY23 due to ongoing global turmoil. 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 2HFY23. We expect the 3Ws and M&HCV segment to witness a strong double-digit volume growth in FY23E. We believe the long-term fundamentals continue to remain intact for the automobile sector. **We remain constructive on two-wheeler stocks amid attractive valuation. 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 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, TVS Motor, Bajaj Auto and Maruti Suzuki continue to remain as our top picks.**

Research Analyst: Mitul Shah

Contact: (022) 41681371 / 9869253554

Email: mitul.shah@relianceada.com

Research Associate: Sheryl Fernandes

Contact: (022) 41681371

Email: sheryl.fernandes@relianceada.com

Exhibit 1: Auto Sales - Domestic

Domestic	Mar'22	Mar'21	YoY (%)	Feb'22	MoM (%)	FY22	FY21	YoY (%)
Passenger Cars	1,38,031	1,56,985	(12.1)	1,33,572	3.3	14,67,056	15,41,866	(4.9)
Utility Vehicles	1,32,032	1,22,350	7.9	1,20,122	9.9	14,89,178	10,60,750	40.4
Vans	9,438	11,604	(18.7)	9,290	1.6	1,13,265	1,08,841	4.1
Passenger Vehicles	2,79,501	2,90,939	(3.9)	2,62,984	6.3	30,69,499	27,11,457	13.2
Passenger Carrier	23,011	21,779	5.7	19,369	18.8	1,83,607	1,35,414	35.6
Goods Carrier	9,077	10,531	(13.8)	7,670	18.3	77,388	84,032	(7.9)
Three Wheelers	32,088	32,310	(0.7)	27,039	18.7	2,60,995	2,19,446	18.9
Scooters	3,60,082	4,58,122	(21.4)	3,44,137	4.6	40,09,076	44,82,305	(10.6)
Motorcycles	7,86,479	9,93,996	(20.9)	6,58,009	19.5	89,84,186	1,00,21,231	(10.3)
Mopeds	37,649	44,688	(15.8)	35,848	5.0	4,73,150	6,17,247	(23.3)
Two wheelers	11,84,210	14,96,806	(20.9)	10,37,994	14.1	1,34,66,412	1,51,20,783	(10.9)
Quadricycle	49	7	600	10	390	124	(12)	NA
Grand Total	14,95,848	18,20,062	(17.8)	13,28,027	12.6	1,75,13,596	1,86,20,233	(5.9)

Source: SIAM; Note: NA - Not Applicable

Exhibit 2: CV Sales – Domestic

Domestic	4QFY22	4QFY21	YoY (%)	3QFY22	QoQ (%)	FY22	FY21	YoY (%)
Passenger Carriers	5,362	4,744	13.0	3,615	48.3	11,802	7,322	61.2
Goods Carriers	88,612	75,790	16.9	60,349	46.8	2,28,773	1,53,366	49.2
M&HCVs	93,974	80,534	16.7	63,964	46.9	2,40,575	1,60,688	49.7
Passenger Carriers	6,942	4,662	48.9	3,535	96.4	19,962	12,088	65.1
Goods Carriers	1,48,890	1,25,160	19.0	1,27,213	17.0	4,56,032	3,95,783	15.2
LCVs	1,55,832	1,29,822	20.0	1,30,748	19.2	4,75,994	4,07,871	16.7
Commercial Vehicles	2,49,806	2,10,356	18.8	1,94,712	28.3	7,16,569	5,68,559	26.0

Source: SIAM

Exhibit 3: Auto Sales - Export

Export	Mar'22	Mar'21	YoY (%)	Feb'22	MoM (%)	FY22	FY21	YoY (%)
Passenger Cars	40,453	25,909	56.1	33,515	20.7	3,74,986	2,64,907	41.6
Utility Vehicles	20,785	13,992	48.5	17,623	17.9	2,01,036	1,37,842	45.8
Vans	32	282	(88.7)	75	(57.3)	1,853	1,648	12.4
Passenger Vehicles	61,270	40,183	52.5	51,213	19.6	5,77,875	4,04,397	42.9
Passenger Carrier	38,217	38,767	(1.4)	34,820	9.8	4,89,535	3,87,397	26.4
Goods Carrier	318	1,005	(68.4)	1,177	(73.0)	10,195	5,604	81.9
Three Wheelers	38,535	39,772	(3.1)	35,997	7.1	4,99,730	3,93,001	27.2
Scooters	21,842	27,883	(21.7)	24,830	(12.0)	3,50,330	2,32,020	51.0
Motorcycles	3,29,399	3,27,347	0.6	3,49,221	(5.7)	40,82,442	30,42,453	34.2
Mopeds	0	942	NA	1,638	NA	10,246	8,313	23.3
Two wheelers	3,51,241	3,56,172	(1.4)	3,75,689	(6.5)	44,43,018	32,82,786	35.3
Quadricycle	12	270	(95.6)	126	(90.5)	4,326	3,529	22.6
Grand Total	4,51,058	4,36,397	3.4	4,63,025	(2.6)	56,17,246	41,34,047	35.9

Source: SIAM; Note: NA - Not Applicable

Exhibit 4: CV Sales – Export

Exports	4QFY22	4QFY21	YoY (%)	3QFY22	QoQ (%)	FY22	FY21	YoY (%)
Passenger Carriers	2,695	1,211	122.5	1,645	63.8	6,499	4,040	60.9
Goods Carriers	7,126	6,593	8.1	7,094	0.5	25,682	13,508	90.1
M&HCVs	9,821	7,804	25.8	8,739	12.4	32,181	17,548	83.4
Passenger Carriers	534	733	(27.1)	441	21.1	1,782	1,641	8.6
Goods Carriers	17,000	11,503	47.8	16,886	0.7	58,331	31,145	87.3
LCVs	17,534	12,236	43.3	17,327	1.2	60,113	32,786	83.3
Commercial Vehicles	27,355	20,040	36.5	26,066	4.9	92,294	50,334	83.4

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**.

Reliance Securities Limited (RSL), the broking arm of Reliance Capital is one of the India's leading retail broking houses. Reliance Capital is amongst India's leading and most valuable financial services companies in the private sector. Reliance Capital has interests in asset management and mutual funds, life and general insurance, commercial finance, equities and commodities broking, wealth management services, distribution of financial products, private equity, asset reconstruction, proprietary investments and other activities in financial services. The list of associates of RSL is available on the website www.reliancecapital.co.in. RSL is registered as a Research Analyst under SEBI (Research Analyst) Regulations, 2014

General Disclaimers: This Research Report (hereinafter called 'Report') is prepared and distributed by RSL for information purposes only. The recommendations, if any, made herein are expression of views and/or opinions and should not be deemed or construed to be neither advice for the purpose of purchase or sale of any security, derivatives or any other security through RSL nor any solicitation or offering of any investment /trading opportunity on behalf of the issuer(s) of the respective security(ies) referred to herein. These information / opinions / views are not meant to serve as a professional investment guide for the readers. No action is solicited based upon the information provided herein. Recipients of this Report should rely on information/data arising out of their own investigations. Readers are advised to seek independent professional advice and arrive at an informed trading/investment decision before executing any trades or making any investments. This Report has been prepared on the basis of publicly available information, internally developed data and other sources believed by RSL to be reliable. RSL or its directors, employees, affiliates or representatives do not assume any responsibility for, or warrant the accuracy, completeness, adequacy and reliability of such information / opinions / views. While due care has been taken to ensure that the disclosures and opinions given are fair and reasonable, none of the directors, employees, affiliates or representatives of RSL shall be liable for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including lost profits arising in any way whatsoever from the information / opinions / views contained in this Report.

Risks: Trading and investment in securities are subject to market risks. There are no assurances or guarantees that the objectives of any of trading / investment in securities will be achieved. The trades/ investments referred to herein may not be suitable to all categories of traders/investors. The names of securities mentioned herein do not in any manner indicate their prospects or returns. The value of securities referred to herein may be adversely affected by the performance or otherwise of the respective issuer companies, changes in the market conditions, micro and macro factors and forces affecting capital markets like interest rate risk, credit risk, liquidity risk and reinvestment risk. Derivative products may also be affected by various risks including but not limited to counter party risk, market risk, valuation risk, liquidity risk and other risks. Besides the price of the underlying asset, volatility, tenor and interest rates may affect the pricing of derivatives.

Disclaimers in respect of jurisdiction: The possession, circulation and/or distribution of this Report may be restricted or regulated in certain jurisdictions by appropriate laws. No action has been or will be taken by RSL in any jurisdiction (other than India), where any action for such purpose(s) is required. Accordingly, this Report shall not be possessed, circulated and/or distributed in any such country or jurisdiction unless such action is in compliance with all applicable laws and regulations of such country or jurisdiction. RSL requires such recipient to inform himself about and to observe any restrictions at his own expense, without any liability to RSL. Any dispute arising out of this Report shall be subject to the exclusive jurisdiction of the Courts in India.

Disclosure of Interest: The research analysts who have prepared this Report hereby certify that the views /opinions expressed in this Report are their personal independent views/opinions in respect of the securities and their respective issuers. None of RSL, research analysts, or their relatives had any known direct /indirect material conflict of interest including any long/short position(s) in any specific security on which views/opinions have been made in this Report, during its preparation. RSL's Associates may have other potential/ material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report. RSL, its Associates, the research analysts, or their relatives might have financial interest in the issuer company(ies) of the said securities. RSL or its Associates may have received a compensation from the said issuer company(ies) in last 12 months for the brokerage or non brokerage services. RSL, its Associates, the research analysts or their relatives have not received any compensation or other benefits directly or indirectly from the said issuer company(ies) or any third party in last 12 months in any respect whatsoever for preparation of this report.

The research analysts has served as an officer, director or employee of the said issuer company(ies)?: No

RSL, its Associates, the research analysts or their relatives holds ownership of 1% or more, in respect of the said issuer company(ies).?: No

Copyright: The copyright in this Report belongs exclusively to RSL. This Report shall only be read by those persons to whom it has been delivered. No reprinting, reproduction, copying, distribution of this Report in any manner whatsoever, in whole or in part, is permitted without the prior express written consent of RSL.

RSL's activities were neither suspended nor have defaulted with any stock exchange with whom RSL is registered. Further, there does not exist any material adverse order/judgments/strictures assessed by any regulatory, government or public authority or agency or any law enforcing agency in last three years. Further, there does not exist any material enquiry of whatsoever nature instituted or pending against RSL as on the date of this Report.

Important these disclaimers, risks and other disclosures must be read in conjunction with the information / opinions / views of which they form part of.

RSL CIN: U65990MH2005PLC154052. SEBI registration no. (Stock Brokers: NSE - INB / INF / INE 231234833; BSE - INB / INF / INE 011234839, Depository Participants: CDSL IN-DP-257-2016 IN-DP-NSDL-363-2013, Research Analyst: INH000002384); AMFI ARN No.29889.