

Auto & Auto Ancillaries

Refer to important disclosures at the end of this report

Multiple triggers to drive volume growth in FY22

We attended SIAM's 'Looking Ahead' Conclave in which OEMs and Industry Experts discussed FY22 demand prospects. Here are the key takeaways:

- **Multiple factors to drive volume improvement:** Industry experts and OEMs expect a robust cyclical upturn in FY22E, thanks to the recovery in economic activity, continuation of positive rural sentiment, resurgence in urban demand, new product launches, government stimulus measures, improving finance availability and a favorable base effect, among others.
- **PVs:** Volumes are expected to be strong at 3.2-3.3mn units, or 23-27% growth, in FY22. The share of replacement demand, which has reduced by 5-6% of overall volumes in FY21 YTD, is expected to improve in FY22E. UV share has been increasing and is expected to further rise from ~42% in FY21 YTD to ~44% in FY22E.
- **2Ws:** FY22 volumes are expected to recover to FY20 levels of ~17.4mn units, implying 15% growth over FY21. Student demand, which has been weak in FY21 YTD, is expected to pick up in FY22E. After a decline in Scooters' share in FY21 YTD to 29%, it is expected to recover to 31% in FY22E, driven by the recovery in urban demand. Growth in 2Ws is expected to be lesser than that of PVs, as a gradual demand recovery is expected for lower income segment customers.
- **CVs:** Robust volume recovery is likely with 35-40% growth in FY22, driven by higher industrial production and improving infra activity. Growth is expected to be higher in HCVs, at up to 100%.
- **3Ws:** Volume growth is expected to be strong at 70-90% in FY22E. Strong recovery is expected in both Cargo and Passenger segments. EV penetration is likely to gradually increase due to cost economics and subsidies.
- **xEV** penetration has increased in developed markets in recent quarters, supported by government stimulus measures. In India, xEV penetration is expected to be gradual due to affordability and charging infrastructure challenges. The supply-chain also needs to be developed.
- **Policy response** has led to a recovery in economic activity and customer sentiment. Going forward, the announcement of Scrappage policy with good incentives can be an additional catalyst for volumes, especially for CVs and 3Ws. Further, OEMs expect the government to defer the implementation of Corporate Average Fuel Economy – 2 (CAFÉ-2) and Real Driving Emission (RDE) norms, which are part of the government's efforts to reduce vehicular carbon footprint.
- **Supply issues expected in the short run:** In the near term, the shortage of semi-conductors and steel could impact production schedules, especially in PVs and CVs – at least for a period of 3-6 months.
- **Commodity prices** have increased sharply in recent months. OEMs are looking to partially offset this impact through price increases, lower discounts and cost-reduction efforts. Gross margins are expected to be under pressure in the near term.
- **Top picks:** Historically, Auto volumes have responded positively to improving macros. The sales upcycles tend to last at least for three years. Our top picks are Ashok Leyland, Eicher Motors, Hero MotoCorp and Maruti Suzuki. Key downside risks: delays in economic recovery, rising competitive intensity, further increase in commodity prices and adverse foreign exchange movements.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Automobiles & Auto Ancillaries \(page 2\)](#)

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Emkay Alpha Portfolio – Automobiles & Auto Ancillaries



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Sector

Automobiles and Ancillaries

Analyst bio

Raghu holds an MBA and comes with total 11 years of research experience. His team currently covers 14 stocks in the Indian Automobiles and Ancillaries space.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
Auto & Auto Ancillaries	5.42	5.42	0%	0	100.00
Amara Raja Batteries	0.10	0.00	-100%	-10	0.00
Apollo Tyres	0.00	0.00	NA	0	0.00
Ashok Leyland	0.21	0.68	225%	47	12.64
Atul Auto	0.00	0.00	NA	0	0.00
Bajaj Auto	0.58	0.57	-1%	-1	10.57
Bharat Forge	0.19	0.25	28%	5	4.55
Eicher Motors	0.49	0.49	-1%	-1	8.99
Escorts	0.00	0.00	NA	0	0.00
Exide Industries	0.12	0.00	-100%	-12	0.00
Hero Motocorp	0.52	0.51	-1%	-1	9.44
Mahindra & Mahindra	0.92	0.91	-1%	-1	16.73
Maruti Suzuki India	1.34	1.32	-1%	-2	24.37
Motherson Sumi	0.25	0.00	-100%	-25	0.00
Tata Motors	0.52	0.51	-1%	-1	9.38
Tata Motors DVR*	0.06	0.06	-1%	0	1.02
TVS Motor	0.13	0.13	-1%	0	2.32
Cash	0.00	0.00	NA	0	0.00

Source: Emkay Research

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

Sector portfolio NAV

	Base					Latest
	01-Apr-19	14-Jan-20	14-Jul-20	13-Oct-20	11-Dec-20	12-Jan-21
EAP - Auto & Auto Ancillaries	100.0	96.3	77.5	93.5	106.4	119.2
BSE200 Neutral Weighted Portfolio (ETF)	100.0	97.8	80.4	95.6	108.9	120.2

*Performance measurement base date 1st April 2019

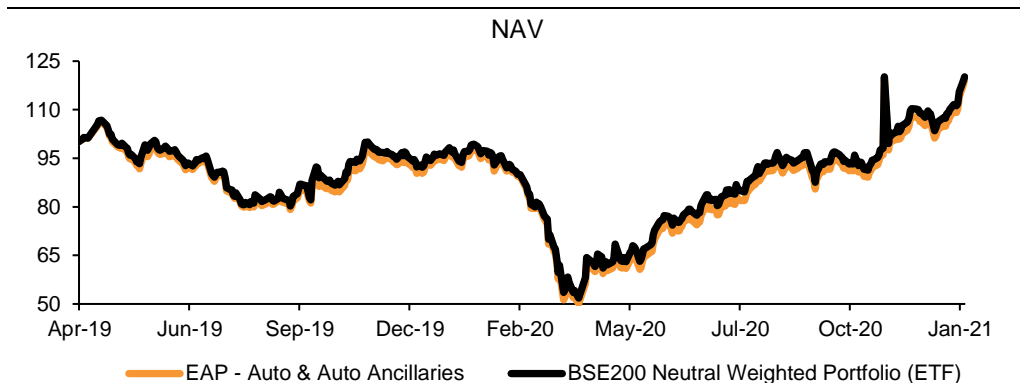
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - Auto & Auto Ancillaries	12.1%	27.6%	53.9%	23.9%
BSE200 Neutral Weighted Portfolio (ETF)	10.3%	25.7%	49.5%	22.9%

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

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