

Autos

Beyond the festive season: recovery sustains

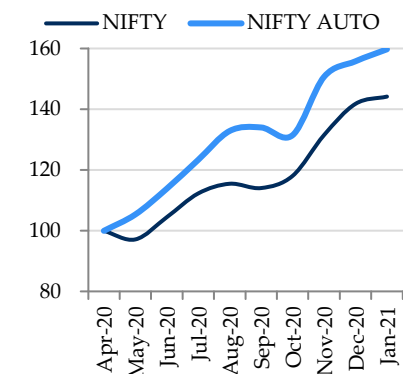
The demand for automobiles has been resilient even post the traditional festive season. Sales for PVs and tractors continue to grow in healthy double-digits and we expect this trend to sustain. As the country emerges from COVID (with vaccine rollout expected shortly), the economic recovery will further benefit auto sales, in our view. We expect margins to be range-bound (vs 2QFY21). While the utilisation levels are elevated (car, tractor utilization is upwards of 80%) and discounts are lower, commodity prices have risen sharply over the past quarter. Valuation multiples for auto companies are now trading at +1 standard deviation above mean. We believe that returns from hereon will be more stock specific as growth rates are likely to differ across segments. We upgrade Bajaj Auto to BUY to factor in an improving export outlook/expected pick-up in domestic 3W sales. We are also positive on Maruti, Tata Motors, and Subros in the autos space.

- Demand revival sustains post-festive season:** The demand for automobiles has been resilient even post the traditional Diwali season. Sales for passenger vehicles and tractors continue to grow in healthy double digits and we expect the trends to sustain over 4Q as well. However, sales for 2Ws have moderated (refer our note: [Divergent Trends in PVs and 2Ws](#)). CV sales are improving QoQ and are expected to witness an uptrend (aided by a low base). As the country emerges from COVID (with vaccine rollout expected shortly), the economic recovery will further benefit auto sales.
- 3QFY21 margin outlook – differing elements:** We expect margins to be range-bound (as compared to 2QFY21). While utilisation levels are elevated (car, tractor utilisation is upwards of 80%) and discounts are lower due to encouraging demand trends, commodity prices have risen sharply over the past quarter. The increase will be felt over 3-6 months as contracts typically rollover with a lag, we believe the cost increases will weigh on margins. OEMs have taken price hikes to partially offset the impact of the above.
- Stock valuations are elevated:** Valuation multiples for auto companies are now trading at +1 standard deviation above mean as the NIFTY Auto index is up another 16% in the Dec-20 quarter (it has doubled since the COVID lows). We believe that returns from hereon will be more stock specific as growth rates are likely to differ across segments. Any announcements in the upcoming budget will benefit the sector.
- Upgrade Bajaj Auto to a BUY:** We are upgrading Bajaj Auto to a buy as (1) exports (~50% of volumes) are reviving across frontier markets as crude prices and other commodities are firming up; (2) 3W sales are expected to revive, particularly after the vaccine rollout and (3) after Bajaj has firmed up its agreement with Triumph, it is building a new facility in Chakan to increase production. We raise our earnings by ~3% over FY22/23E and set a revised TP of Rs 4,000 at 20x FY23E EPS (vs 18x earlier). We value the stock at a 10% premium to its long-term average trading multiple to factor in the improving outlook.
- Key recommendations:** We are positive on Maruti, Tata Motors, Bajaj Auto and Subros in the auto/auto anc's sector. These companies will benefit from improving demand trends as well as improving prospects in overseas markets.

| | CMP* (Rs) | Reco |
|-------------------|--------------|--------|
| Ashok Leyland | 105 | REDUCE |
| Bajaj | 3,494 | BUY |
| Eicher | 2,673 | REDUCE |
| Escorts | 1,313 | ADD |
| Hero Motocorp | 3,067 | BUY |
| M&M | 739 | ADD |
| Maruti | 7,651 | BUY |
| Tata Motors | 193 | BUY |
| Amara Raja | 985 | ADD |
| Endurance | 1,417 | BUY |
| Gulf Oil | 729 | BUY |
| Subros | 348 | BUY |
| Sundram Fasteners | 556 | ADD |

*CMP as of 5th Jan-21

NIFTY Auto index has doubled from Mar-20 lows



Source: Bloomberg, HSIE Research; indexes rebased to 100

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3QFY21E earnings preview

| | Volume (in units '000) | | | NET SALES (Rs bn) | | | EBITDA margin (%) | | | APAT (Rs bn) | | | Adj. EPS | | |
|------------------|------------------------|------------|------------|-------------------|------------|------------|-------------------|--------------|--------------|--------------|------------|------------|-------------|------------|------------|
| | 3Q FY21E | QoQ (%) | YoY (%) | 3Q FY21E | QoQ (%) | YoY (%) | 3Q FY21E | QoQ (bps) | YoY (bps) | 3Q FY21E | QoQ (%) | YoY (%) | 3Q FY21E | 2Q FY21 | 3Q FY20 |
| AUTOS | | | | | | | | | | | | | | | |
| Ashok Leyland | 33 | 72 | 7 | 48.4 | 71 | 21 | 5.4 | 256 | (21) | 0.4 | (130) | 47 | 0.2 | (0.5) | 0.1 |
| Bajaj Auto | 1,307 | 24 | 9 | 87.6 | 22 | 15 | 17.6 | (10) | (30) | 13.6 | 20 | 8 | 47.0 | 39.3 | 43.6 |
| Eicher | 200 | 33 | 9 | 28.0 | 32 | 19 | 22.4 | 10 | (280) | 5.1 | 50 | 3 | 18.9 | 12.6 | 18.3 |
| Escorts | 32 | 29 | 26 | 20.8 | 27 | 28 | 17.1 | (125) | 411 | 2.7 | 16 | 75 | 26.5 | 22.8 | 15.2 |
| Hero Moto | 1,845 | 2 | 20 | 94.3 | 1 | 35 | 13.5 | (23) | (135) | 9.8 | 2 | 11 | 48.8 | 47.7 | 44.1 |
| Mahindra | 224 | 21 | 3 | 134.4 | 16 | 11 | 16.5 | (125) | 174 | 13.5 | 3 | 38 | 11.3 | 11.0 | 8.2 |
| Maruti | 496 | 26 | 13 | 237.0 | 26 | 14 | 10.2 | (12) | 5 | 18.1 | 32 | 16 | 60.0 | 45.4 | 51.8 |
| Tata Motors | 158 | 43 | 22 | 142.4 | 47 | 31 | 5.1 | 222 | 369 | (6.3) | (0) | (0) | (1.7) | (3.3) | (2.9) |
| Aggregate | | | | 792.9 | 26 | 20 | 11.9 | (28) | 60 | 57.0 | 42 | 32 | | | |

Source: Company, HSIE Research

| | NET SALES (Rs mn) | | | EBITDA margin (%) | | | APAT (Rs mn) | | | Adj. EPS | | |
|-------------------|-------------------|------------|------------|-------------------|--------------|--------------|--------------|------------|------------|-------------|------------|------------|
| | 3Q FY21E | QoQ (%) | YoY (%) | 3Q FY21E | QoQ (bps) | YoY (bps) | 3Q FY21E | QoQ (%) | YoY (%) | 3Q FY21E | 2Q FY21 | 3Q FY20 |
| AUTO ANCS | | | | | | | | | | | | |
| Amara Raja | 19,939 | 3 | 14 | 16.3 | (128) | 5 | 1,939 | (4) | 18 | 11.4 | 11.8 | 9.6 |
| Endurance | 18,549 | 5 | 13 | 17.5 | (18) | 163 | 1,766 | 6 | 42 | 12.6 | 11.9 | 8.8 |
| Gulf Oil | 4,402 | 7 | 4 | 18.1 | (92) | (28) | 580 | (2) | 4 | 11.6 | (1.9) | 3.8 |
| Subros | 5,122 | 12 | 10 | 11.5 | (17) | 114 | 256 | 44 | 90 | 3.9 | 2.7 | 2.1 |
| Sundram Fasteners | 9,321 | 5 | 13 | 19.1 | (98) | 370 | 987 | (4) | (5) | 4.7 | (3.6) | (5.3) |

Source: Company, HSIE Research

| COMPANY | 3QFY21 OUTLOOK | WHAT'S LIKELY | KEY MONITORABLES |
|---------------|-------------------|---|--|
| Ashok Leyland | AVG | <ul style="list-style-type: none"> Volumes for the quarter came in at 33k units (+72/7% QoQ/YoY). This was led by strong demand in the LCV segment. Revenue is expected to grow 71/21% QoQ/YoY, from a low base. EBITDA margin is expected at 5.4% (-21bps YoY, +250bps QoQ). We expect the company to report a profit of Rs 441mn after reporting loss for two consecutive quarter. | <ul style="list-style-type: none"> Market share gains in the LCV segment – new product response AL's diversification initiatives Recovery trends in MHCVs |
| Bajaj Auto | AVG | <ul style="list-style-type: none"> Volumes in the quarter are up 24/9% QoQ/YoY, led by 2W growth and healthy exports. Operating margins at 17.6% (- 10/30bps QoQ/YoY). PAT at Rs 13.6bn to grow 20/8% QoQ/YoY. | <ul style="list-style-type: none"> Outlook on exports, particularly to the African continent Three-wheeler outlook in the Indian market Updates on PLI scheme and benefits for Bajaj Auto |
| Eicher Motors | AVG | <ul style="list-style-type: none"> We expect revenue at Rs 27.9bn (+32/19 QoQ/YoY). EBITDA margin at 22.4%, -280bps YoY, +10bps QoQ. PAT growth of 50/3% QoQ/YoY to Rs 5bn. | <ul style="list-style-type: none"> Progress on production ramp up Demand trends for the new product-Meteor Impact of competition (new Honda Highness launch) |
| Escorts | GOOD | <ul style="list-style-type: none"> Volumes grew by 29/26% QoQ/YoY. We expect margins to improve YoY by 400bps to 17.1%. PAT growth of 16/75% QoQ/YoY. | <ul style="list-style-type: none"> Progress/plans of the recently commissioned plant with Kubota Impact of agri reforms on the farm segment |
| Hero MotoCorp | AVG | <ul style="list-style-type: none"> Volumes for Hero are up 20% YoY / 2% QoQ. We expect the margin at 13.5% (-130bps YoY, -20bps QoQ) PAT at Rs 9.7bn to grow 11% YoY, 2% QoQ. | <ul style="list-style-type: none"> Market share trends in the premium segment – response to Xtreme 160cc Inventory levels as festive season is now behind |
| Mahindra | AVG | <ul style="list-style-type: none"> Total volumes (including tractors) grew 21/2% QoQ/YoY. This was led by 20% YoY growth in the tractor volumes. Revenue are expected to grow 16/11% QoQ/YoY. EBITDA margin at 16.5% to expand by 175bps YoY (-125bps QoQ). PAT growth of 3/38% QoQ/YoY to Rs 13.5bn. | <ul style="list-style-type: none"> Outlook for demand in tractors Amidst rising competition in the SUV segment, timelines on launch of XUV 500 Further update on impact of exit from Ford JV / SsangYong stake sale |
| Maruti Suzuki | GOOD | <ul style="list-style-type: none"> We expect revenues to grow by 26/14% QoQ/YoY owing to a similar growth in volumes. EBITDA margin at 10.2%, flat QoQ/YoY. PAT to grow by 32/15% QoQ/YoY. | <ul style="list-style-type: none"> Demand trends – particularly that of entry-level cars Status of model availability and waiting periods thereof |

| COMPANY | 3QFY21 OUTLOOK | WHAT'S LIKELY | KEY MONITORABLES |
|------------------------|-------------------|---|--|
| Tata Motors | AVG | <ul style="list-style-type: none"> Standalone: Volumes grew by 43/22% QoQ/YoY. We expect standalone revenues to grow by 47/31% QoQ/YoY to Rs 142bn. EBITDA margin of 5.1% (+220/370bps QoQ/YoY). We expect a loss of Rs 6.2bn vs loss of Rs 12/10.4bn QoQ/YoY. We expect JLR to report an EBITDA margin at 11% (vs 11.1/10.8% QoQ/YoY) Consolidated margins at 11.3% (vs 12.5/11.4% QoQ/YoY). Loss at Rs 4.7bn vs a loss of Rs 7bn QoQ, profit of Rs 15bn YoY. | <ul style="list-style-type: none"> India business outlook – market share gains in the PV segment, recovery trends in the CV segment JLR – impact of Brexit on manufacturing Demand recovery trends at JLR |
| Amara Raja Batteries | AVG | <ul style="list-style-type: none"> We expect revenues to grow by 3/14% QoQ/YoY. EBITDA margin at 16.3% to contract by 130bps QoQ, flat YoY. PAT growth of 18% YoY to Rs 1.9bn. | <ul style="list-style-type: none"> Impact of tightening pollution norms (draft Battery Waste Management rules, 2020) Initiatives to expand beyond conventional LAB segment |
| Endurance Technologies | AVG | <ul style="list-style-type: none"> We expect a consolidated revenue growth of 5/13% QoQ/YoY to Rs 18.5bn. EBITDA margin at 17.5% to expand by 160bps YoY. PAT at Rs 1.7bn to grow by 6/42% QoQ/YoY. | <ul style="list-style-type: none"> Market share gains by Endurance – any new order wins from TVS Motors, now that the group is separating Outlook on industry growth trends |
| Gulf Oil | AVG | <ul style="list-style-type: none"> We expect revenue to growth by 7/4% QoQ/YoY. Operating margin at 18.1% to contract by 90/30bps QoQ/YoY. We expect PAT growth of 4% YoY | <ul style="list-style-type: none"> Volume outlook in the DEO segment RM price trends as oil prices are now firming up |
| Subros | GOOD | <ul style="list-style-type: none"> We expect revenues to grow by 12/10% QoQ/YoY. Operating margin to expand by 110bps YoY to 11.5%. We expect PAT to grow by 44/90% QoQ/YoY to Rs 256mn. | <ul style="list-style-type: none"> Expectations for demand pick up in the passenger vehicle segment The demand outlook for the home AC business and any benefits from the PLI scheme |
| Sundram Fasteners | AVG | <ul style="list-style-type: none"> We expect consolidated revenues growth of 5/13% QoQ/YoY. Operating margin at 19.1% to expand by 370bps YoY, -100bps QoQ We expect PAT decline of 4/5% QoQ/YoY. | <ul style="list-style-type: none"> Demand outlook in both India as well as overseas markets Any possible impact of separation from the TVS group |

Source: HSIE Research

Change in estimates and TP

| Coverage companies | Old Rating | New Rating | Old TP | New TP ^ | Old target multiple | New target multiple | Old EPS | | | New EPS | | | % change | | |
|--------------------|------------|------------|--------|----------|---------------------|---------------------|---------|--------|--------|---------|--------|--------|----------|--------|--------|
| | | | | | | | FY 21E | FY 22E | FY 23E | FY 21E | FY 22E | FY 23E | FY 21E | FY 22E | FY 23E |
| Ashok Leyland # | REDUCE | REDUCE | 75 | 97 | 10x | 11x | 0.1 | 3.6 | 5.0 | 0.1 | 3.8 | 5.2 | - | 5 | 4 |
| Bajaj Auto | ADD | BUY | 3,270 | 4,000 | 18x | 20x | 150.5 | 168.1 | 194.6 | 151.2 | 171.2 | 199.7 | 0 | 2 | 3 |
| Eicher | REDUCE | REDUCE | 2,100 | 2,390 | 23x core business | 23x core business | 53.6 | 78.6 | 100.5 | 54.6 | 80.0 | 102.1 | 2 | 2 | 2 |
| Escorts | ADD | ADD | 1,360 | 1,480 | 16x | 16x | 67.8 | 78.9 | 91.1 | 69.0 | 80.3 | 92.6 | 2 | 2 | 2 |
| Hero Motocorp | BUY | BUY | 3,380 | 3,590 | 19x | 19x | 137.2 | 164.9 | 190.7 | 137.5 | 163.9 | 188.7 | 0 | -1 | -1 |
| M&M | ADD | ADD | 685 | 790 | 14x core business | 14x core business | 32.3 | 36.4 | 42.8 | 33.3 | 37.8 | 44.7 | 3 | 4 | 4 |
| Maruti Suzuki | BUY | BUY | 9,100 | 9,065 | 27x | 27x | 150.2 | 265.9 | 337.3 | 156.1 | 264.8 | 335.7 | 4 | -0 | -0 |
| Tata Motors # | BUY | BUY | 175 | 240 | 10x Standalone | 11x Standalone | -28.6 | 0.1 | 11.3 | -28.0 | 0.3 | 11.4 | -2 | 366 | 1 |
| Amara Raja | ADD | ADD | 840 | 1,000 | 19x | 19x | 33.4 | 40.3 | 48.1 | 36.2 | 44.0 | 52.5 | 8 | 9 | 9 |
| Gulf Oil | BUY | BUY | 800 | 865 | 20x | 20x | 32.9 | 37.0 | 43.3 | 32.9 | 37.0 | 43.3 | - | - | - |
| Subros | BUY | BUY | 310 | 400 | 21x | 22x | 5.1 | 12.2 | 17.4 | 5.8 | 12.9 | 18.1 | 14 | 5 | 4 |
| Sundram Fasteners | ADD | ADD | 565 | 580 | 27x | 27x | 11.3 | 16.5 | 20.9 | 12.7 | 16.9 | 21.5 | 12 | 2 | 3 |

Source: Company, HSIE Research, #valued on EV/EBITDA, ^FY23E TP

Valuation summary

| | Mcap (Rs bn) | CMP* (Rs/sh) | Reco | TP (Rs) | Adj EPS (Rs/sh) | | | P/E (x) | | | RoE (%) | | | EV/EBITDA (x) | | |
|-------------------|--------------|--------------|--------|---------|-----------------|--------|--------|---------|--------|--------|---------|--------|--------|---------------|--------|--------|
| | | | | | FY 21E | FY 22E | FY 23E | FY 21E | FY 22E | FY 23E | FY 21E | FY 22E | FY 23E | FY 21E | FY 22E | FY 23E |
| AUTOS | | | | | | | | | | | | | | | | |
| Ashok Leyland | 307 | 105 | REDUCE | 97 | 0.1 | 3.8 | 5.2 | 773.2 | 27.5 | 20.0 | 0.5 | 14.7 | 18.3 | 43.5 | 15.8 | 11.8 |
| Bajaj Auto | 1,011 | 3,494 | BUY | 4,000 | 151.2 | 171.2 | 199.7 | 23.1 | 20.4 | 17.5 | 20.9 | 21.5 | 22.6 | 18.6 | 16.0 | 13.1 |
| Eicher | 73 | 2,673 | REDUCE | 2,390 | 54.6 | 80.0 | 102.1 | 48.9 | 33.4 | 26.2 | 14.1 | 18.2 | 20.0 | 35.4 | 25.2 | 19.4 |
| Escorts Ltd. | 161 | 1,313 | ADD | 1,480 | 69.0 | 80.3 | 92.6 | 19.0 | 16.4 | 14.2 | 16.3 | 14.8 | 14.8 | 12.2 | 10.4 | 8.4 |
| Hero Motocorp | 613 | 3,067 | BUY | 3,590 | 137.5 | 163.9 | 188.7 | 22.3 | 18.7 | 16.3 | 18.5 | 20.1 | 20.7 | 15.3 | 12.4 | 10.4 |
| M&M | 881 | 739 | ADD | 790 | 33.3 | 37.8 | 44.7 | 22.2 | 19.6 | 16.6 | 11.2 | 11.8 | 12.6 | 13.9 | 11.3 | 9.5 |
| Maruti Suzuki | 2,311 | 7,651 | BUY | 9,065 | 156.1 | 264.8 | 335.7 | 49.0 | 28.9 | 22.8 | 9.4 | 14.7 | 16.7 | 34.6 | 20.0 | 15.1 |
| Tata Motors | 695 | 193 | BUY | 240 | (28.0) | 0.3 | 11.4 | NA | NA | 17.0 | NA | 0.2 | 7.4 | 6.9 | 4.5 | 3.8 |
| AUTO ANCS | | | | | | | | | | | | | | | | |
| Amara Raja | 168 | 985 | ADD | 1,000 | 36.2 | 44.0 | 52.5 | 27.2 | 22.4 | 18.8 | 15.8 | 16.7 | 17.3 | 14.5 | 12.0 | 9.8 |
| Gulf Oil | 36 | 729 | BUY | 865 | 32.9 | 37.0 | 43.3 | 22.1 | 19.7 | 16.8 | 20.5 | 20.7 | 21.7 | 12.8 | 11.1 | 9.2 |
| Subros | 23 | 348 | BUY | 400 | 5.8 | 12.9 | 18.1 | 59.8 | 27.0 | 19.2 | 5.0 | 10.3 | 13.1 | 15.1 | 10.6 | 8.2 |
| Sundram Fasteners | 117 | 556 | ADD | 580 | 12.7 | 16.9 | 21.5 | 43.6 | 32.9 | 25.9 | 12.7 | 15.1 | 17.0 | 24.1 | 19.4 | 16.0 |

Source: HSIE Research *CMP as of 5th Jan-21

3QFY21 Volume Summary

| Volumes in units | 3QFY21 | 2QFY21 | 3QFY20 | % QoQ | % YoY |
|----------------------|------------------|------------------|------------------|-----------|-----------|
| Ashok Leyland | 33,410 | 19,444 | 31,205 | 72 | 7 |
| - MHCV | 16,586 | 7,936 | 18,122 | 109 | (8) |
| - LCV | 16,824 | 11,508 | 13,083 | 46 | 29 |
| Bajaj Auto | 1,306,810 | 1,053,337 | 1,202,486 | 24 | 9 |
| - 2W | 1,193,867 | 964,465 | 1,027,161 | 24 | 16 |
| - CV | 112,943 | 88,872 | 175,325 | 27 | (36) |
| Eicher | 212,470 | 158,686 | 195,182 | 34 | 9 |
| - 2W | 199,668 | 150,519 | 182,791 | 33 | 9 |
| - CV | 12,802 | 8,167 | 12,391 | 57 | 3 |
| Escorts | 31,562 | 24,441 | 25,109 | 29 | 26 |
| Hero Motocorp | 1,845,274 | 1,814,683 | 1,540,868 | 2 | 20 |
| Maruti | 495,897 | 393,130 | 437,361 | 26 | 13 |
| M&M | 223,978 | 185,270 | 216,816 | 21 | 3 |
| - Auto | 122,277 | 92,024 | 132,361 | 33 | (8) |
| - Tractors | 101,701 | 93,246 | 84,455 | 9 | 20 |
| Tata Motors* | 150,958 | 106,888 | 121,463 | 41 | 24 |
| - PV | 68,803 | 54,794 | 36,354 | 26 | 89 |
| - CV | 82,155 | 52,094 | 85,109 | 58 | (3) |
| TVS | 989,517 | 867,834 | 821,521 | 14 | 20 |
| - 2W | 951,879 | 834,346 | 773,130 | 14 | 23 |
| - 3W | 37,638 | 33,488 | 48,391 | 12 | (22) |

Source: SIAM, Company, HSIE Research; *only domestic sales

Volume assumptions – Annual estimates (in units)

| Company | | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E |
|---------------|---------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Ashok Leyland | Total volumes | 174,851 | 197,366 | 125,250 | 97,341 | 118,146 | 138,306 |
| | % YoY | 21 | 13 | (37) | (22) | 21 | 17 |
| Bajaj Auto | Total volumes | 4,006,788 | 5,018,712 | 4,615,212 | 3,941,899 | 4,337,983 | 4,846,362 |
| | % YoY | 9 | 25 | (8) | (15) | 10 | 12 |
| Eicher RE | Total volumes | 820,493 | 823,828 | 696,052 | 609,115 | 698,098 | 808,710 |
| | % YoY | 23 | 0 | (16) | (12) | 15 | 16 |
| Escorts | Total volumes | 80,405 | 96,412 | 86,017 | 97,298 | 105,172 | 114,886 |
| | % YoY | 26 | 20 | (11) | 13 | 8 | 9 |
| Hero Motocorp | Total volumes | 7,587,193 | 7,820,831 | 6,409,719 | 5,628,877 | 6,089,214 | 6,577,995 |
| | % YoY | 14 | 3 | (18) | (12) | 8 | 8 |
| M&M | Total volumes | 868,132 | 938,546 | 779,809 | 734,393 | 811,766 | 896,579 |
| | % YoY | 13 | 8 | (17) | (6) | 11 | 10 |
| Maruti Suzuki | Total volumes | 1,779,574 | 1,862,449 | 1,563,297 | 1,403,902 | 1,609,191 | 1,849,988 |
| | % YoY | 13 | 5 | (16) | (10) | 15 | 15 |
| Tata Motors* | Total volumes | 641,133 | 732,739 | 473,502 | 469,011 | 542,510 | 639,018 |
| | % YoY | 17 | 14 | (35) | (1) | 16 | 18 |

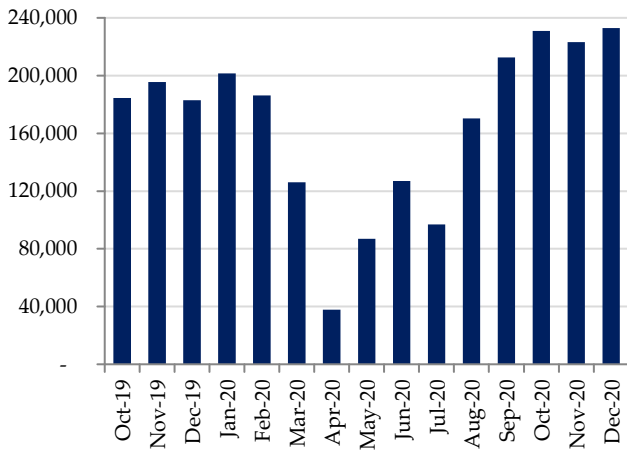
Source: SIAM, Company, HSIE Research; *standalone operations

Bajaj Auto: Upgrade to BUY on improving outlook

We are upgrading Bajaj Auto to a buy as:

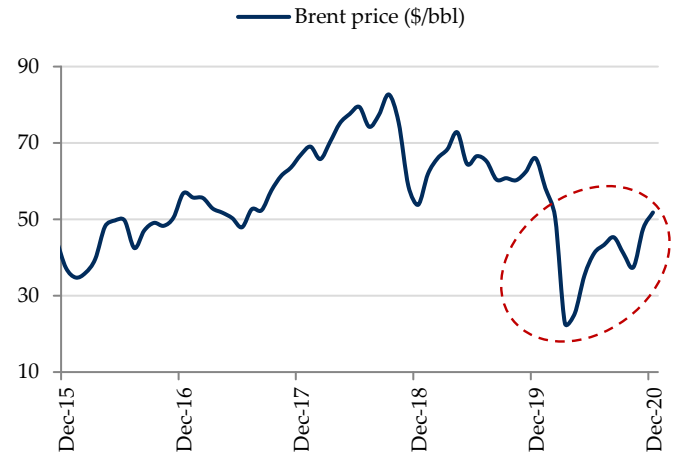
- **Export growth is now reviving across frontier markets** as crude prices and other commodities are firming up. Exports (which are ~50% of volumes) have recovered over the past few months and are expected to sustain the growth over FY22 as well.

Bajaj Auto exports improving MoM (volume in units)



Source: Company, HSIE Research

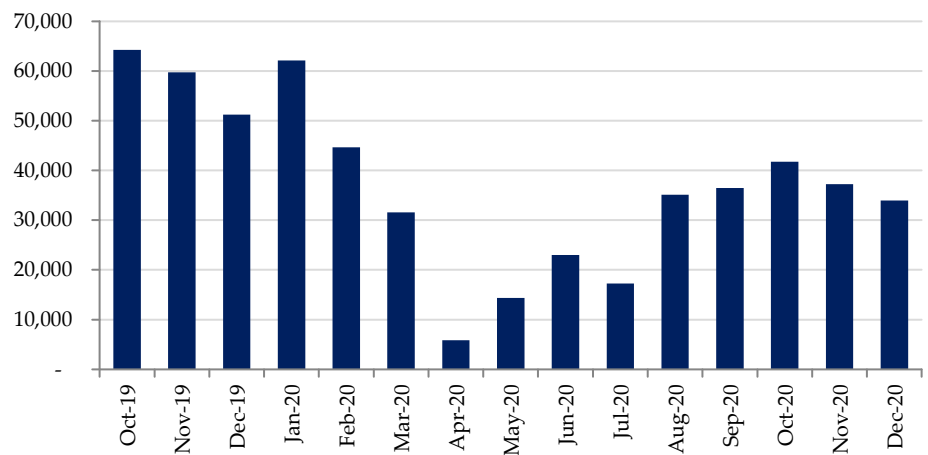
Brent crude price highest since Feb-20 lows



Source: Bloomberg, HSIE Research

- **3W sales are expected to revive**, particularly as the vaccine rollout will commence shortly. Currently, Bajaj Auto's three-wheeler sales have halved over the COVID led downturn. We expect that as the situation normalizes, demand will improve from trough levels in the domestic market.

Bajaj Auto's 3W volumes (in units)



Source: Company, HSIE Research

- **Bajaj to expand capacities for premium bikes:** After Bajaj has firmed up its agreement with Triumph to roll out premium lifestyle bikes in 2022, the OEM is investing Rs 6.5b at Chakan for its new plant to build KTM, Husqvarna and Triumph Bikes as well as Chetak e-scooters. The facility is expected to commence production in 2023. We believe that as Bajaj is expanding its premium portfolio, it will benefit in the medium term.

- We raise our earnings by ~3% over FY22/23E and set a revised TP of Rs 4,000 at 20x FY23E EPS (vs 18x earlier). We value the stock at a 10% premium to its long-term average trading multiple.

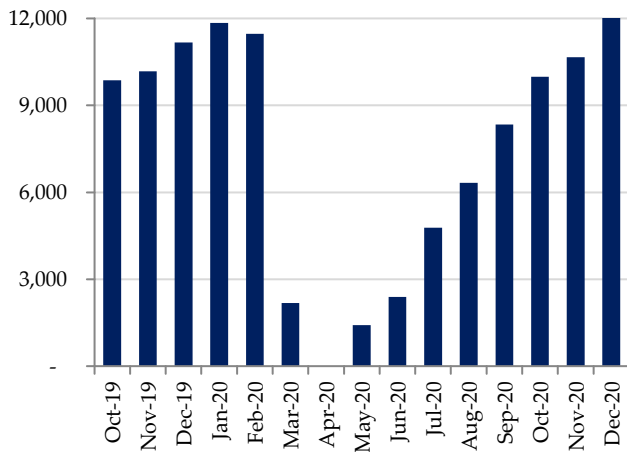
Volume assumptions

| (in units) | FY17 | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E |
|-----------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Motorcycles | | | | | | | |
| -Domestic | 2,001,391 | 1,974,574 | 2,541,320 | 2,078,348 | 1,828,946 | 2,011,841 | 2,233,143 |
| -Exports | 1,218,541 | 1,394,757 | 1,695,553 | 1,869,220 | 1,700,990 | 1,854,079 | 2,076,569 |
| Total 2W sales | 3,219,932 | 3,369,331 | 4,236,873 | 3,947,568 | 3,529,936 | 3,865,920 | 4,309,712 |
| % YoY | (4.1) | 4.6 | 25.7 | (6.8) | (10.6) | 9.5 | 11.5 |
| 3Ws | | | | | | | |
| -Domestic | 253,226 | 369,637 | 399,448 | 365,759 | 146,304 | 193,121 | 229,814 |
| -Exports | 192,792 | 267,820 | 382,391 | 301,885 | 265,659 | 278,942 | 306,836 |
| Total 3W sales | 446,018 | 637,457 | 781,839 | 667,644 | 411,962 | 472,062 | 536,650 |
| % YoY | (16.7) | 42.9 | 22.6 | (14.6) | (38.3) | 14.6 | 13.7 |
| Total | | | | | | | |
| - Domestic | 2,254,617 | 2,344,211 | 2,940,768 | 2,444,107 | 1,975,250 | 2,204,962 | 2,462,957 |
| - Exports | 1,411,333 | 1,662,577 | 2,077,944 | 2,171,105 | 1,966,649 | 2,133,021 | 2,383,405 |
| Total sales | 3,665,950 | 4,006,788 | 5,018,712 | 4,615,212 | 3,941,899 | 4,337,983 | 4,846,362 |
| % YoY | (5.8) | 9.3 | 25.3 | (8.0) | (14.6) | 10.0 | 11.7 |

Source: Company, HSIE Research

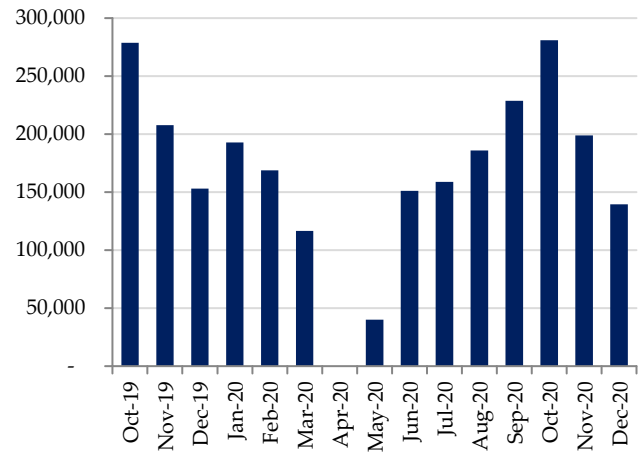
Monthly volumes (in units)

Ashok Leyland: Demand is supported by a pickup in LCV volumes



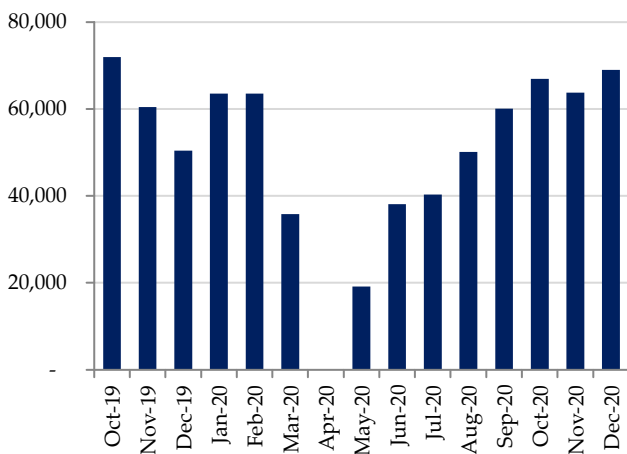
Source: SIAM, Company, HSIE Research

Bajaj Auto: Pick-up in 2W volumes including exports



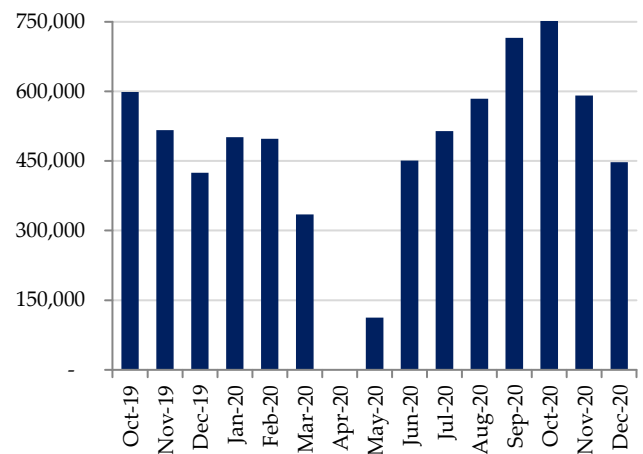
Source: SIAM, Company, HSIE Research

Royal Enfield: Sales pickup due to pent-up demand



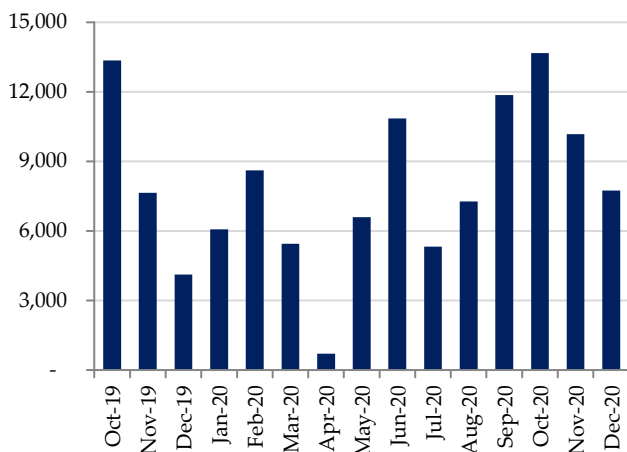
Source: SIAM, Company, HSIE Research

Hero: Volumes have risen led by rural offtake



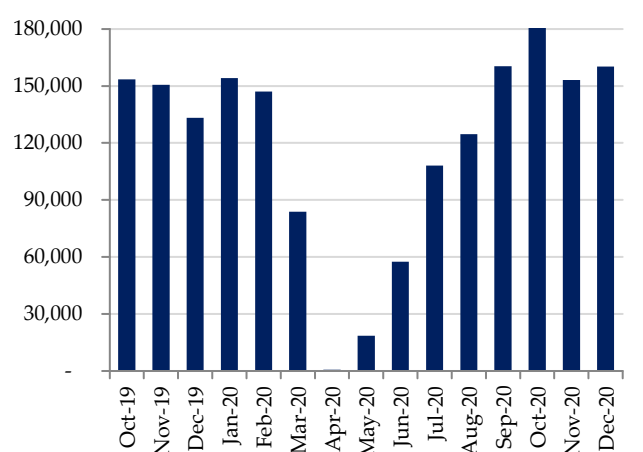
Source: SIAM, Company, HSIE Research

Escorts: Tractors sales are witnessing healthy momentum



Source: SIAM, Company, HSIE Research

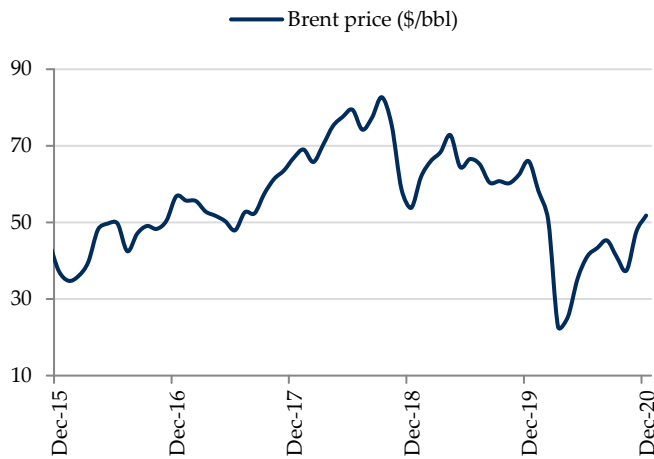
Maruti Suzuki: Entry-level cars witnessing healthy demand



Source: SIAM, Company, HSIE Research

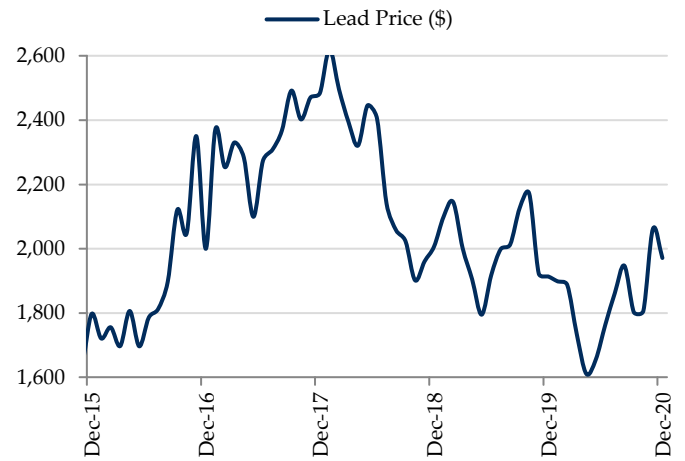
Commodity prices

Brent crude



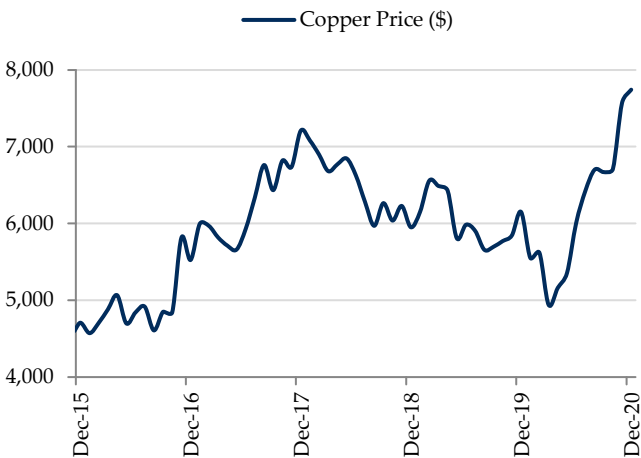
Source: Bloomberg, HSIE Research

Lead



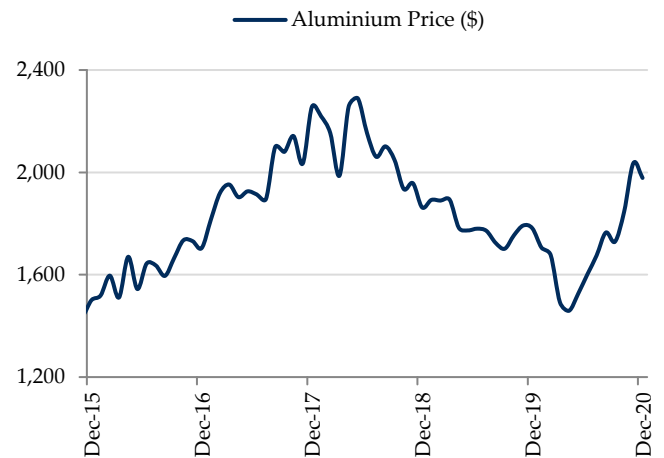
Source: Bloomberg, HSIE Research

Copper



Source: Bloomberg, HSIE Research

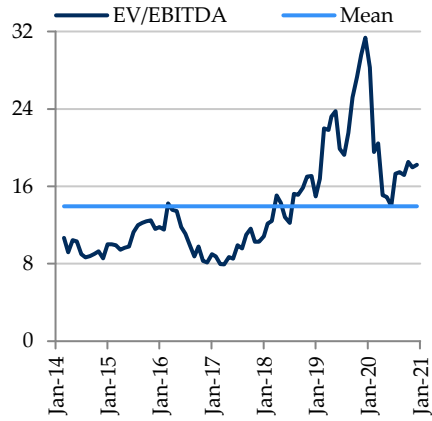
Aluminium



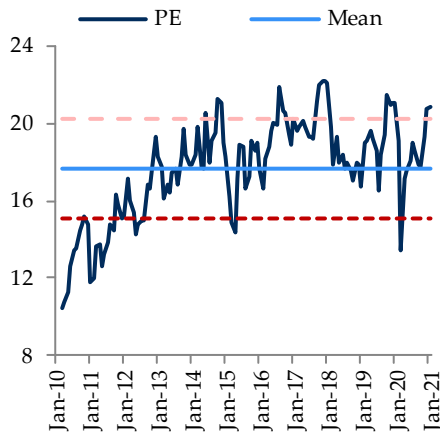
Source: Bloomberg, HSIE Research

Autos: 3QFY21E Results Preview

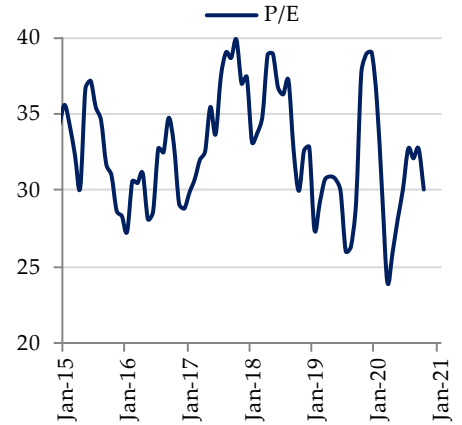
Ashok Leyland 1-yr forward EV/EBITDA



Bajaj Auto 1-yr forward P/E band

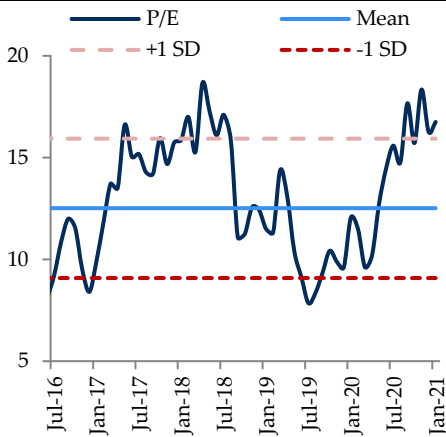


Eicher Motors 1-yr forward P/E band

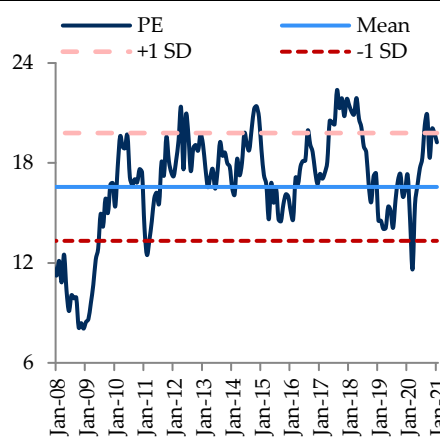


Source: Bloomberg, Company, HSIE Research

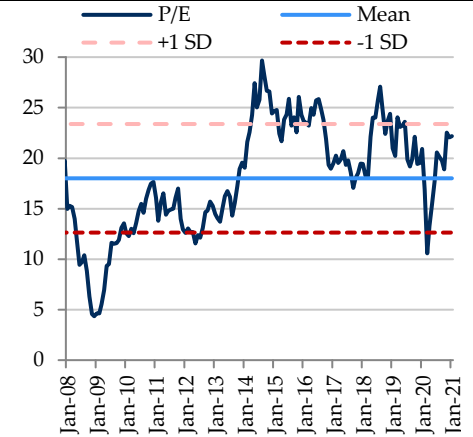
Escorts 1-yr forward P/E band



Hero Motocorp 1-yr forward P/E band

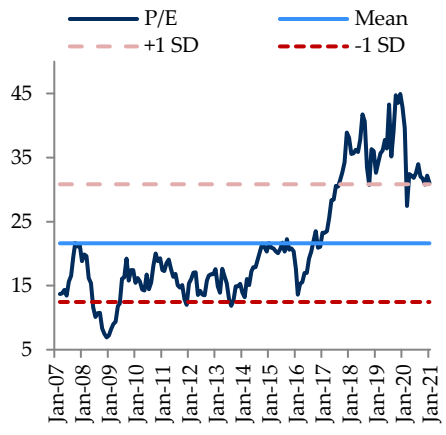


M&M 1-yr forward P/E band

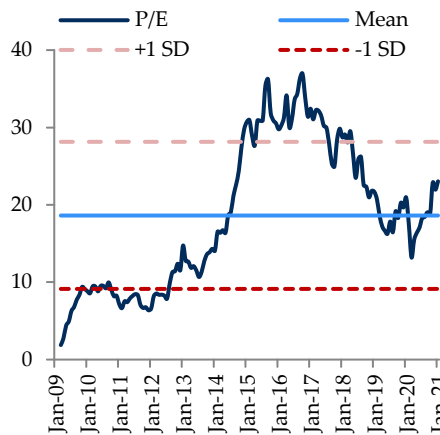


Source: Bloomberg, Company, HSIE Research

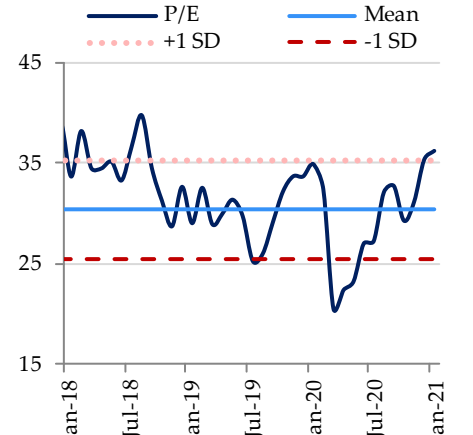
Maruti Suzuki 1-yr forward P/E band



Amara Raja 1-yr forward P/E band

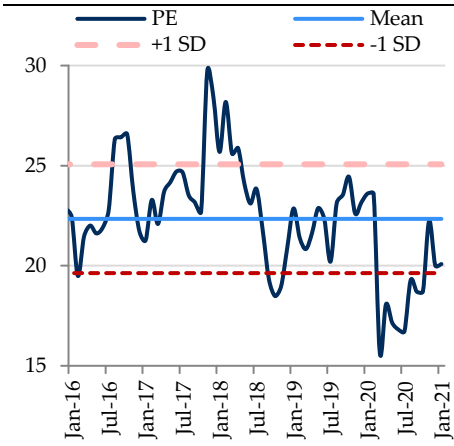


Endurance 1-yr forward P/E band

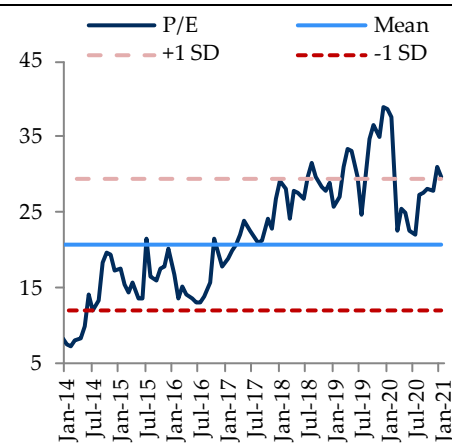


Source: Bloomberg, Company, HSIE Research

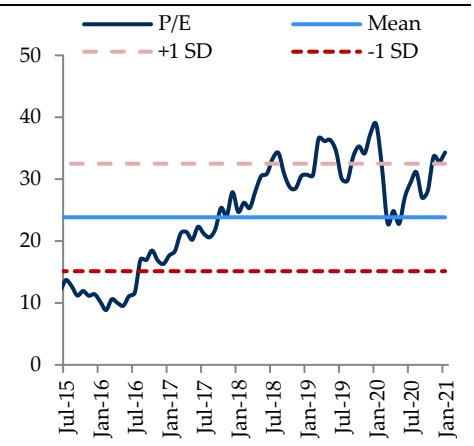
Gulf Oil 1-yr forward P/E band



Subros 1-yr forward P/E band



Sundram Fasteners 1-yr forward P/E band



Source: Bloomberg, Company, HSIE Research

Rating Criteria

| | |
|---------|---------------------------------|
| BUY: | >+15% return potential |
| ADD: | +5% to +15% return potential |
| REDUCE: | -10% to +5% return potential |
| SELL: | > 10% Downside return potential |

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