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Values that bind

Thematic Portfolio

Ride the economic recovery

The auto industry has been dealing with demand uncertainty over the last two years owing to several concerns. The overall economic slowdown due to COVID, liquidity issues amongst NBFCs and regulatory changes are some of the key factors which were weighing on the sentiment. However, the industry has seen some respite over the last 9-10 months as demand picked up meaningfully led by easing restrictions, strong pent up and festive demand. Moreover, attractive interest rates and easing liquidity conditions also aided the recovery.

As we stand, things are again looking grim for the auto sector due to the second wave of COVID-19 as several states are forced to announce strict restrictions which will have an impact on auto recovery as well. However, we believe the growth prospects look promising over the next 1-2 years for the auto industry led by overall economic recovery, favourable base, resilient rural economy, normal monsoon, and increased thrust of the government on infrastructure. Further, increased preference for personal mobility, low-interest rates and easing liquidity conditions bodes well for a strong recovery.

We have therefore identified 5 diverse auto stocks which we believe can yield healthy returns over the next 9-12 months.

Some of the key risks include a) Slower than expected economic recovery due to COVID-19, b) Rising fuel prices and commodity prices could slow down demand recovery.

Top 5 stocks			
Company	**Reco Price***	**Target Price**	**Upside**
Ashok Leyland	**125**	**147**	**18%**
Endurance Technologies	**1,398**	**1,745**	**25%**
Exide Industries	**187**	**229**	**22%**
Mahindra & Mahindra	**819**	**1,087**	**33%**
Maruti Suzuki	**6,815**	**8,289**	**22%**

*Reco Price as on May 21, 2021

BUY

CMP (Rs)	125
Target Price (Rs)	147
Potential Upside	18%
Sensex	50,541
Nifty	15,175

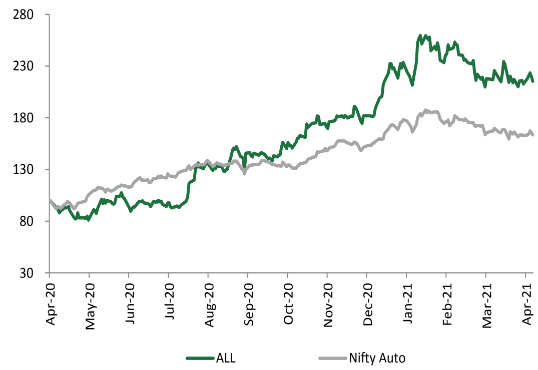
Key Stock data

BSE Code	500477
NSE Code	ASHOKLEY
Bloomberg	AL:IN
Shares o/s, Cr (FV 1)	293.6
Market Cap (Rs Cr)	36,826
3M Avg Volume	52,856,568
52 week H/L	139/42

Shareholding Pattern

(%)	Sep-20	Dec-20	Mar-21
Promoter	51.5	51.5	51.5
FII	14.6	16.3	18.1
DII	17.6	17.7	16.8
Others	16.2	14.4	13.6

1 Year relative price performance



Well placed to ride the economic recovery

Headquartered in Chennai, Ashok Leyland Ltd. (ALL) is the flagship company of Hinduja Group engaged in the manufacturing of commercial vehicles (CV). It is the second-largest CV manufacturer in India and the fourth largest manufacturer of buses globally. ALL has nine manufacturing plants with seven in India and two at international locations. It has an international presence in over 50 countries. ALL is the pioneer in the Commercial Vehicle (CV) space as many of its product concepts have become industry benchmarks and norms.

Investment Rationale

- **CV Industry to bounce back stronger:** The domestic CV industry has witnessed several challenges over the last two years starting with the overall economic slowdown, liquidity issues amongst NBFCs, revised axle load norms and lastly the COVID-19 pandemic and BS-VI related cost increase. Given the highly cyclical nature of the M&HCV industry, we expect a strong rebound in FY22 and FY23 led by favourable base, overall economic recovery, easing liquidity conditions for CV financing and more importantly a strong infrastructure push in the budget would aid volume growth. On the LCV segment, the demand was not impacted as badly as the M&HCV segment, and we expect healthy growth momentum to continue on the back of increased preference towards the hub & spoke model driven by the surge in e-commerce.
- **ALL to continue to gain market share:** Over the last decade, ALL has been steadily gaining market share in the domestic M&HCV segment and made its presence felt in the LCV segment from FY12. We expect ALL volumes to recover led by revival in the CV industry as the company's portfolio is more skewed towards high tonnage vehicles which would benefit more during upcycle in the CV industry. Further, its constant focus on technology upgrades and new product launches would enable it to grow faster than the industry.

Outlook & Valuation:

The domestic CV industry is poised for healthy growth led by increased government spending on infrastructure, mining and pick-up in economic activity. We believe ALL stands to benefit from the upcycle in the CV industry given its strong position in the M&HCV and LCV segments. To reduce the earnings volatility, the company has sharpened its focus on increasing its revenue share from LCVs, spares, exports and defence. On the margins front, a better product mix, higher operating leverage and better pricing (as Tata Motors also focusing on improving margins) would provide a cushion to margins against the rise in commodity prices. We believe that ALL's strong brand presence in the CV segment and its focus on diversifying to less cyclical businesses make it one of our preferred picks in the sector. We recommend a Buy on the stock with a target price of Rs 147.

Financial Summary

Particulars, Rs cr	FY20	FY21E	FY22E	FY23E
Net revenue	17,467	13,368	21,172	27,735
EBITDA	1,174	535	1,736	2,884
EBITDAM (%)	6.7	4.0	8.2	10.4
APAT	343	(184)	714	1,555
APATM (%)	1.4	-1.4	3.4	5.6
EPS (Rs)	1.2	-0.6	2.4	5.3
PE (x)	94.2	-175.3	45.2	20.8
RoE (%)	4.4	-2.6	9.7	18.8

Source : Company; RBL Research

BUY

CMP (Rs)	1,398
Target Price (Rs)	1,745
Potential Upside	25%
Sensex	50,541
Nifty	15,175

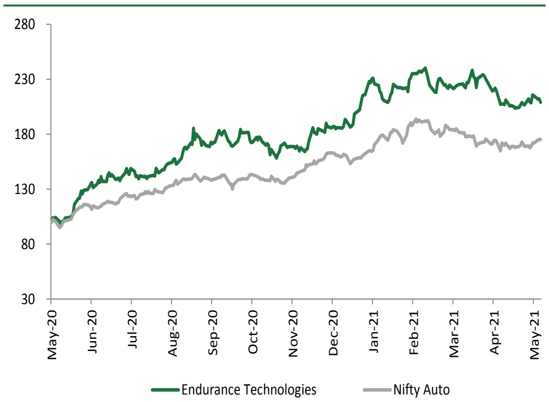
Key Stock data

BSE Code	540153
NSE Code	ENDURANCE
Bloomberg	ENDU:IN
Shares o/s, Cr (FV 10)	14.1
Market Cap (Rs Cr)	19,664
3M Avg Volume	38,53,028
52 week H/L	1,520/619

Shareholding Pattern

(%)	Sep-20	Dec-20	Mar-21
Promoter	75.0	75.0	75.0
FII	11.6	10.6	9.9
DII	11.9	12.8	13.5
Others	1.5	1.6	1.6

1 Year relative price performance



Outperformance to continue

Endurance Technologies is a complete solutions provider for aluminum die-casting, suspension, braking systems and transmission products. It is a Tier 1 supplier to leading Indian and global brands in two, three and four-wheeler vehicles. It derives 71% of its revenues from its India business whereas 29% comes from Europe. In terms of the end market, the company garners 56% of its revenue from the two-wheeler segment, 32% from the 4-wheeler segment and 12% from 3-wheeler and other segments. The company has 27 strategically located manufacturing facilities with proximity to OEMs across India and Europe. It has 17 manufacturing units spread across five states in India – in Maharashtra, Gujarat, Uttarakhand, Tamil Nadu and Karnataka and 10 manufacturing facilities in Europe – 7 in Italy and 3 in Germany.

Investment Rationale

- **Two-wheeler industry to witness healthy recovery:** The domestic two-wheeler industry witnessed a sharp slowdown towards the end of 2018 mainly due to increased cost of ownership (due to regulatory changes), subdued economic growth, weak consumer sentiment and lastly the COVID-19 pandemic. However, the volumes have picked up recently led by strong pent-up and festive season demand, easing liquidity conditions. The rise in COVID-19 cases has yet again impacted demand for two-wheelers, but we expect the recovery to continue led by overall economic recovery, low-interest rates, and favorable base effect. Resilient export demand augurs well for the overall two-wheeler industry. Additionally, given the high penetration of two-wheelers, we expect the recent trend of premiumization in motorcycles and scooters to continue which bodes well not only for OEMs but for an auto ancillary company like Endurance Technologies.
- **Endurance will continue to shine:** Endurance has outperformed the two-wheeler industry over the last decade led by increased penetration in existing clients, new client additions, widening product base and premiumization. We expect similar growth momentum for Endurance led by positive industry growth trends coupled with new customer wins and an increase in content per vehicle.

Outlook & Valuation:

We like Endurance given its strong position in the two-wheeler segment, diversified revenue and client base, increasing wallet share with key customers, increased focus on value-added products and profitable product mix. Further, the company is gaining a foothold in the electric vehicle space which is expected to grow at a faster pace due to the rising adoption of EVs in Europe. Additionally, net debt-free balance sheet, strong thrust on R&D, healthy return ratios makes it one of preferred pick in the sector. We recommend a Buy on the stock with a target price of Rs. 1,745.

Financial Summary

Particulars, Rs cr	FY20	FY21	FY22E	FY23E
Net revenue	6,918	6,547	7,987	9,106
EBITDA	1,131	1,040	1,398	1,630
EBITDAM (%)	16.3	15.9	17.5	17.9
APAT	566	528	741	893
APATM (%)	8.2	7.9	9.3	9.8
EPS (Rs)	40.2	37.5	52.7	63.5
PE (x)	34.6	37.1	26.4	21.9

Source : Company; RBL Research

BUY

CMP (Rs)	187
Target Price (Rs)	229
Potential Upside	22%
Sensex	50,541
Nifty	15,175

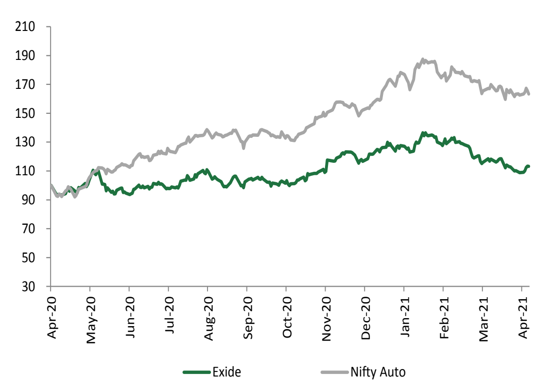
Key Stock data

BSE Code	500086
NSE Code	EXIDEIND
Bloomberg	EXID:IN
Shares o/s, Cr (FV 1)	85.0
Market Cap (Rs Cr)	15,907
3M Avg Volume	3,853,028
52 week H/L	219/145

Shareholding Pattern

(%)	Sep-20	Dec-20	Mar-21
Promoter	46.0	46.0	46.0
FII	9.8	10.4	12.0
DII	23.1	27.3	24.6
Others	21.1	16.4	17.5

1 Year relative price performance



Going strong

Exide Industries (Exide) is India's largest lead-acid storage battery manufacturer in India. It is the market leader in all automotive applications in the domestic market. Its battery portfolio spans 2/3/4 wheelers, e-rickshaws, inverters, gensets and home UPS systems. In the industrial segment, it provides reliable energy storage solutions to all industrial applications. It caters to all the leading OEMs and marquee players in the industrial segment. It also manufactures high-end batteries for different classes of submarines and is the sole supplier to the Indian Navy for more than three decades. Further, the company also exports its products to over 50 countries worldwide. Exide has nine factories strategically located all over India out of which 7 factories are dedicated to batteries and the other 2 factories manufacture Home UPS Systems.

Investment Rationale

- **Recovery in the auto industry bodes well for Exide:** The domestic auto industry has witnessed several challenges over the past two years largely due to liquidity issues amongst NBFCs, changes in regulatory norms, and lastly the COVID-19 pandemic. However, the demand has picked up meaningfully over the last several months led by easing restrictions, strong pent-up and festive season sales and easing liquidity conditions. While we expect the demand could remain muted in the near term due to the ongoing second wave, nonetheless we expect the growth trajectory to continue especially in the 2-wheeler and PV segment led by normal monsoons, higher rural income, and increased preference towards personal mobility, low-interest rates and easing liquidity conditions. The automotive battery market is largely a duopoly wherein Exide is the market leader with ~60% OEM market share. The anticipated recovery in OEM volumes augurs well for Exide due to its commanding market share and strong relationship with OEMs. Moreover, it enjoys a 100% market share in some of the major launches in 2019 which have done considerably well despite industry headwinds (Kia Seltos, MG Hector, Hyundai Venue).
- **Exide's smart recovery in the replacement market to continue:** The organized players constitute 60% share in India's replacement battery market whereas unorganized players have a 40% market share. Exide is the largest player in this market with a 50% market share of the organized market. Over the last three years, Exide has managed to regain its lost market share by filling in product gaps, increased focus on quality improvement and after-sales service. A similar trend is likely to continue going forward as we expect the shift from unorganized to organized to accelerate driven by GST implementation and lower corporate tax rate. Further, the ongoing economic recovery bodes well not only for the automotive replacement market but also for the industrial segment where Exide is the market leader in most segments.

Outlook & Valuation:

We expect Exide to further strengthen its position in India's battery market driven by its healthy relationship with OEMs, strong focus on technology up-gradation, and faster shift towards organized players. Further, the company has two lead smelting units for captive consumption from which it meets ~40% of its lead and lead alloy requirements from recycled lead. This would reduce the volatility in margins caused due to movement in lead prices. Therefore, strengthening leadership position, constant focus on improving technology, product & service, debt-free status, expanding return ratios makes it one of our preferred picks in the sector. We recommend a Buy on the stock with a target price of Rs. 229 valuing the core business at 15x FY23E EPS and life insurance business at Rs. 25.

Financial Summary

Particulars, Rs cr	FY20	FY21	FY22E	FY23E
Net revenue	9,857	10,041	11,599	12,903
EBITDA	1,365	1,356	1,635	1,864
EBITDAM (%)	13.8	13.5	14.1	14.5
APAT	843	758	961	1,116
APATM (%)	8.4	7.6	8.3	8.7
EPS (Rs)	9.9	8.9	11.3	13.1
PE (x)	18.2	20.2	15.9	13.7
RoE (%)	13.7	11.5	13.4	14.2

Source : Company; RBL Research

BUY

CMP (Rs)	819
Target Price (Rs)	1,087
Potential Upside	33%
Sensex	50,541
Nifty	15,175

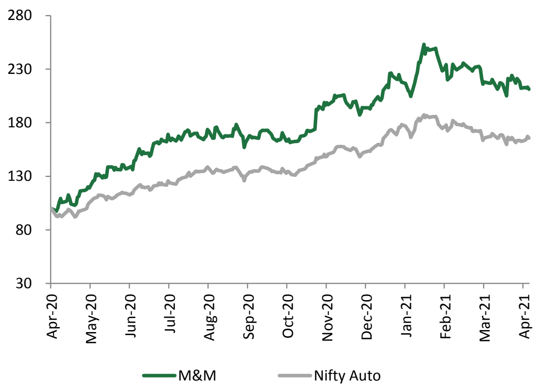
Key Stock data

BSE Code	500520
NSE Code	M&M
Bloomberg	MM:IN
Shares o/s, Cr (FV 5)	119.2
Market Cap (Rs Cr)	101,811
3M Avg Volume	62,37,465
52 week H/L	952/367

Shareholding Pattern

(%)	Sep-20	Dec-20	Mar-21
Promoter	19.6	19.4	19.5
FII	34.7	37.9	38.9
DII	30.9	28.5	27.6
Others	14.8	14.2	14.0

1 Year relative price performance



On a strong footing

Established in 1945, Mahindra and Mahindra (M&M) is the flagship company of the Mahindra Group. It is one of the leading conglomerates which operate in various segments such as Automotive (PVs, CVs, 2W and 3W), Farm Equipment, Hospitality, Information Technology, Financial Services, Real Estate, Retail and Logistics. It has a business presence in over 100 countries with 63 manufacturing facilities around the world. M&M is the market leader in the tractors and Utility Vehicles (UV) segment which is a part of its core business (Farm equipment and Auto).

Investment Rationale

- **Tractor industry to drive growth:** The domestic tractor industry has witnessed a healthy growth recovery from Dec-19 (volumes were impacted due to lockdown in March and April) led by the increase in Kharif sowing area, thereby indicating a bumper harvest, good monsoons, higher government spending and favourable base effect. We believe the trend is expected to continue on the back of expected normal monsoons, a good Rabi crop season and an increase in MSP. Further, the supply side issues faced recently due to restrictions have eased considerably. The positive tractor industry growth prospect bodes well for M&M given its market leadership (41.2% market share), strong product portfolio, wide distribution network and new launches. Further, farm equipment being a major contributor to its operational profits (68.7% as of FY20), we believe it to be a key driver to M&M's earnings growth.
- **M&M's UV business to witness challenges, LCV better placed:** While we expect the UV industry to revive gradually (still underperforming the overall PV industry) on the back of cyclical recovery, the increased competitive intensity (from existing as well as new players) and product gaps would continue to remain a key challenge for M&M. On the contrary, in the LCV segment (M&M market share 42.6%), M&M is better placed due to its strong brand positioning and increased preference towards the Hub and Spoke model due to the surge in e-commerce.

Outlook & Valuation:

We continue to maintain our positive stance on M&M given its strong rural presence through Farm equipment and automotive business. The management has mentioned that the capital allocation plan is more or less complete and it has managed to reduce or turn around its loss-making businesses. Further, the management has laid out a plan to strengthen M&M's position through new product launches, redefine its UV positioning and leverage platform synergy to optimise CAPEX. We expect revenue and PAT to grow at 12.9% and 22.5% CAGR over FY20-23E. We value the core business at 16x FY23E EPS of Rs. 51.5 and arrive at SOTP based target price of Rs. 1087.

Financial Summary

Particulars, Rs cr	FY20	FY21E	FY22E	FY23E
Net revenue	45,488	46,079	57,138	65,537
EBITDA	5,798	6,635	7,799	9,175
EBITDAM (%)	12.7	14.4	13.7	14.0
APAT	3,345	3,379	5,058	6,148
APATM (%)	7.4	7.3	8.9	9.4
EPS (Rs)	28.0	28.3	42.4	51.5
PE (x)	26.9	26.6	17.8	14.6
RoE (%)	9.7	9.8	13.8	14.9

Source : Company; RBL Research

BUY

CMP (Rs)	6,815
Target Price (Rs)	8,289
Potential Upside	22%
Sensex	50,541
Nifty	15,175

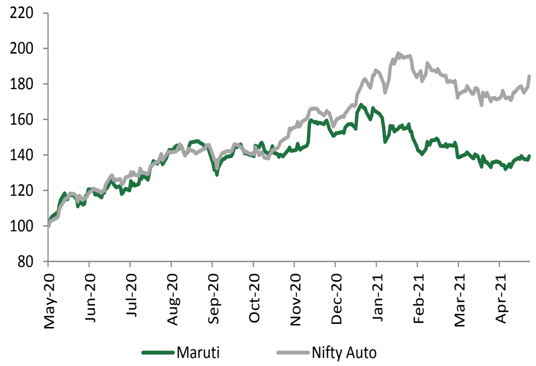
Key Stock data

BSE Code	532500
NSE Code	MARUTI
Bloomberg	MSIL:IN
Shares o/s, Cr (FV 5)	30.2
Market Cap (Rs Cr)	205,856
3M Avg Volume	7,60,000
52 week H/L	8,329/4,681

Shareholding Pattern

(%)	Sep-20	Dec-20	Mar-21
Promoter	56.4	56.4	56.4
FII	21.9	23.1	23.1
DII	16.8	15.7	15.1
Others	5.0	4.9	5.4

1 Year relative price performance



Re-gaining momentum

Maruti Suzuki India Ltd. (MSIL) is India's largest passenger vehicles (PV) company with a commanding market share of ~48% in the domestic market with ~1.2 million vehicles sold in FY21. It is a subsidiary of Suzuki Motor Corporation, Japan. MSIL has two manufacturing plants located at Gurugram and Manesar in Haryana with an installed capacity of ~1.58 million vehicles per year. In addition, it has set up a plant in Gujarat with a capacity of 0.5 million units taking its overall production capacity to over 2 million units per year. Further, MSIL boasts of its wide distribution network with ~2,765 channels (including NEXA) and has 3,864 service workshops covering 1,914 cities. Further, MSIL is the largest exporter of passenger cars from India.

Investment Rationale

- **Domestic PV industry growth to continue its recovery:** The recent recovery in the domestic PV industry has been remarkable over the last 3 quarters, after getting severely impacted due to lockdown restrictions in Q1FY20. The re-opening of the economy, easing financing conditions, low-interest rates, strong rural income, pent-up and festive demand has aided recovery. Going forward, while the recent surge in COVID-19 cases would impact volume recovery in Q1FY22, we expect the growth momentum to remain strong in FY22 and FY23 on the back of a low base, healthy growth in rural income and increased preference for personal mobility. Further, low-interest rates and adequate liquidity would also aid revival for the PV industry.
- **MSIL to strengthen its leadership position:** MSIL lost market share in FY21 (from 51% in FY20 to 47.7% in FY21) mainly due to a decline in market share in the Utility Vehicle segment. In the passenger car segment, MSIL has managed to increase its market share considerably over the last five years to 62% in FY21 (v/s 53% in FY16). This has been largely on account of its strong product portfolio, wide distribution network and sales service. We believe MSIL would regain its lost market share and strengthen its leadership position in the domestic PV industry due to its strong presence in the entry-level segment, strong brand connect and new launches.

Outlook & Valuation:

We continue to remain constructive on long-term growth prospects of the industry given the low penetration of cars in India as compared to other major economies, economic recovery, increase in per capita income, low-interest rate and higher rural income. MSIL is better placed than peers in the PV space given its leadership position, strong product portfolio and wide distribution network. On the operational front, we expect margins could remain under pressure in the near term due to rising commodity prices and lower volumes. However, price hikes, better product mix and cost rationalization measures would aid margin improvement in FY22 and FY23. We recommend a Buy on the stock with a target price of Rs. 8,289.

Financial Summary

Particulars, Rs cr	FY20	FY21	FY22E	FY23E
Net revenue	43,792	70,333	90,659	98,365
EBITDA	5,187	5,345	8,703	11,214
EBITDAM (%)	11.8	7.6	9.6	11.4
APAT	5,651	4,230	6,926	9,270
APATM (%)	12.9	6.0	7.6	9.4
EPS (Rs)	187.1	140.1	229.3	307.0
PE (x)	71.6	53.7	37.2	27.1
RoE (%)	14.1	8.2	12.0	14.4

Source : Company; RBL Research

Research Analyst

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Statements on ownership and material conflicts of interest , compensation– Research Analyst (RA)

[Please note that only in case of multiple RAs, if in the event answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) below , are given separately]

S. No.	Statement	Answer	
		Tick appropriate	
		Yes	No
	I/we or any of my/our relative has any financial interest in the subject company? **[If answer is yes, nature of Interest is given below this table]**		No
	I/we or any of my/our relatives, have actual/beneficial ownership of one per cent. or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance?		No
	I / we or any of my/our relative, has any other material conflict of interest at the time of publication of the research report or at the time of public appearance?		No
	I/we have received any compensation from the subject company in the past twelve months?		No
	I/we have managed or co-managed public offering of securities for the subject company in the past twelve months?		No
	I/we have received any compensation for brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation for products or services other than brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation or other benefits from the subject company or third party in connection with the research report?		No
	I/we have served as an officer, director or employee of the subject company?		No
	I/we have been engaged in market making activity for the subject company?		No

Nature of Interest (if answer to F (a) above is Yes :

...

Name(s) with Signature(s) of RA(s).

[Please note that only in case of multiple RAs and if the answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) above , are given below]

SS..No.	Name(s) of RA.	Signtures of RA	Serial Question of question which the signing RA needs to make a separate declaration / answer	Yes	No.