

India

Overweight (no change)**Highlighted Companies****Ashok Leyland****ADD, TP Rs205, Rs174 close**

CV demand improvement post absorption of high interest rates provides comfort. New product launches and pricing discipline to drive profitability. We maintain our ADD rating on the stock

Bajaj Auto**ADD, TP Rs5573, Rs5038 close**

The expansion of the premium bike portfolio with the launch of Triumph and a gradual recovery in exports augur well for the company's profitability. EV portfolio expansion to help get pole position in both 2W and 3W segments. We retain our ADD rating on the stock.

Samvardhana Motherson International**ADD, TP Rs115, Rs93 close**

The rise in M&A activity will lead to an increase in profitability for the company. The sustained EBIT margin expansion in module and wiring divisions is likely to drive EBITDA growth. We reiterate our ADD rating on the stock.

Summary Valuation Metrics

P/E (x)	Mar22-A	Mar23-A	Mar24-F
Ashok Leyland	1701.15	36.92	23.76
Bajaj Auto	29.04	25.9	20.73
Samvardhana Motherson International	76.6	27.21	22.18

P/BV (x)	Mar22-A	Mar23-A	Mar24-F
Ashok Leyland	6.95	6.05	5.42
Bajaj Auto	5.47	5.73	5.27
Samvardhana Motherson International	3.07	2.82	2.57

Dividend Yield	Mar22-A	Mar23-A	Mar24-F
Ashok Leyland	0.46%	1.5%	2.3%
Bajaj Auto	2.78%	2.72%	3.3%
Samvardhana Motherson International	0.46%	0.57%	1.07%

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Auto & Parts - Overall**2QFY24 results preview**

- Volume recovery in the CV segment was impressive in 2Q, while the weakness in the tractor segment and slow growth in the 2W segment disappointed.
- Favourable commodity costs to boost qoq EBITDA growth for Ashok Leyland and Maruti Suzuki, while a sharp weakness is likely for Escorts and M&M.
- Retain Overweight rating as demand revival due to festive season & easing 2H interest rates provide comfort at current mean P/E Nifty Auto index valuation.

CV and car industry volume growth is impressive

Domestic sales volume momentum has improved in the commercial vehicle or CV segment in 2QFY24 while the tractor segment has been weak due to rainfall shortage. The gradual recovery witnessed in rural areas in 1Q seems to be weakening, as seen in low two-wheeler or 2W qoq growth. Strong Index of Industrial Production or IIP growth and sustained high freight rates (Fig. 7) to aid CV volume improvement in 2HFY24F while the tractor segment's growth is at risk. Prolonged high interest rates and rising crude oil prices are a risk to automobile demand post festive season. Ashok Leyland, with a 20% qoq volume growth, leads the peers while the sharp qoq dip in Escorts Kubota disappoints. Electric vehicle or EV sales volume is on gradual recovery after absorbing the subsidy cut shock in Jun 2023.

Lower commodity prices provide comfort

Benign commodity costs on a qoq basis (Fig. 12), barring lead, provide support to sustain the gross margin expansion trend. Precious metals recorded a sharp fall. However, the price rise in recent weeks can be a challenge if they sustain for the rest of 3QFY24F. The trend in Japanese yen (Fig. 8) to benefit Maruti Suzuki's imports, while exports to benefit from the US dollar's strength witnessed in 2QFY24.

Sep 2023 quarter result expectations

While the sales volume momentum and commodity costs favour CV and tractor segments' profitability, the price discounts are a cause of concern. We expect strong EBITDA qoq growth for Ashok Leyland and Maruti Suzuki, while Escorts Kubota and Mahindra & Mahindra (M&M) to see weakness. In our coverage universe EBITDA estimates, we are substantially ahead of Bloomberg consensus estimates in the case of Tata Motors, SAMIL, M&M and Schaeffler, but sharply below consensus estimates in the case of TVS Motor, Bharat Forge and Hero MotoCorp.

Maintain Overweight rating on the sector with preference for OEMs

The Nifty Auto Index's outperformance to Nifty-50 Index sustained in recent months (1-3 months), with the major beat coming from Escorts Kubota, TVS Motor and Bharat Forge, while Apollo Tyres and Hero MotoCorp underperformed. We reiterate Overweight rating on the sector as the Nifty Auto Index is trading below its 10-year mean P/E level (Fig.18) and volume recovery is expected from the festive period excitement and sustained strength in macroeconomic factors. Our preferred ADD-rated stocks are Bajaj Auto, Ashok Leyland, Maruti Suzuki and M&M. Key REDUCE-rated stocks are Tata Motors and Escorts Kubota.

Figure 1: 2QFY24F financials of our coverage universe

(Rs m)	Revenue	YoY%	QoQ%	EBITDA	YoY%	QoQ%	Adjusted PAT	YoY%	QoQ%
Ashok Leyland	100,251	21.3%	22.4%	10,827	101.5%	31.9%	5,543	190.1%	36.9%
Bajaj Auto	107,877	5.7%	4.6%	21,842	24.2%	11.8%	18,310	19.7%	10.0%
Eicher Motors	40,085	13.9%	0.6%	10,028	22.1%	-1.8%	8,622	31.3%	-6.1%
Escorts Kubota	21,709	15.3%	-6.7%	2,583	69.2%	-21.0%	2,125	32.5%	-24.9%
Hero MotoCorp	93,195	2.7%	6.3%	12,546	20.8%	4.0%	9,559	33.5%	1.2%
Mahindra & Mahindra	254,418	22.1%	4.4%	34,501	38.7%	-2.7%	31,123	33.6%	31.4%
Maruti Suzuki	363,711	21.5%	12.5%	41,496	49.9%	28.7%	31,081	50.8%	14.1%
Tata Motors	1,080,401	35.7%	5.7%	159,212	82.6%	0.4%	44,017	NA	2.1%
TVS Motor Company	82,978	14.9%	15.0%	8,397	14.0%	9.9%	4,597	12.8%	11.5%
Apollo Tyres	67,167	12.8%	7.6%	10,747	50.9%	2.2%	4,419	127.4%	7.8%
Balkrishna Industries	22,276	-20.6%	5.3%	5,279	-6.5%	8.5%	2,797	-30.7%	-10.4%
Bharat Forge	21,593	15.8%	1.5%	5,434	16.6%	-1.0%	3,124	10.9%	0.3%
Bosch Ltd.	42,841	17.0%	3.0%	5,373	24.6%	14.8%	4,463	19.9%	9.1%
Endurance Technologies	26,650	12.9%	8.8%	3,571	31.5%	11.2%	1,888	43.6%	15.5%
Exide Industries	40,164	8.0%	-1.4%	4,678	13.4%	8.2%	2,875	16.7%	18.8%
SAMIL	239,718	31.3%	6.7%	21,117	50.5%	9.7%	6,882	179%	6.2%
Schaeffler India	19,700	12.2%	7.7%	3,852	20.8%	12.6%	2,538	18%	7.0%
SKF India	11,925	10.6%	3.7%	2,237	4.3%	10.3%	1,668	7%	8.0%
Timken India	7,510	8.0%	7.4%	1,515	14.7%	-11.7%	1,041	7%	-11.8%

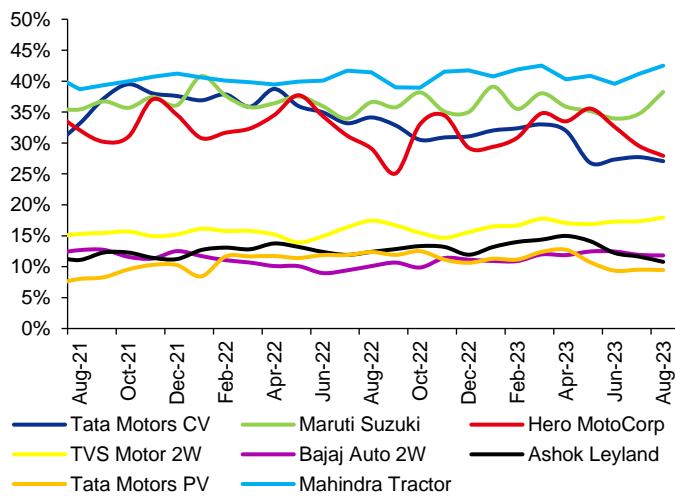
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: 2QFY24 sales volume performance of companies in our coverage universe

Company	2QFY24 Sales Volume	YoY%	QoQ%
Ashok Leyland	49,846	10.0%	20.6%
Bajaj Auto	1,053,953	-8.4%	2.6%
Eicher Motors	255,799	13.5%	3.4%
Escorts Kubota	22,019	-7.1%	-17.2%
Hero MotoCorp	1,416,526	-0.8%	4.7%
Mahindra & Mahindra	302,139	10.6%	0.3%
Maruti Suzuki	552,055	6.7%	10.8%
Tata Motors (ex-JLR)	251,822	3.4%	10.4%
TVS Motor	1,074,378	4.6%	12.7%

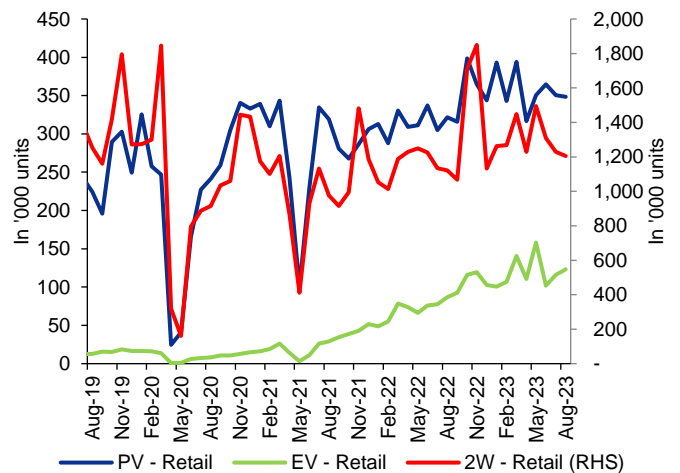
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Retail market share trend



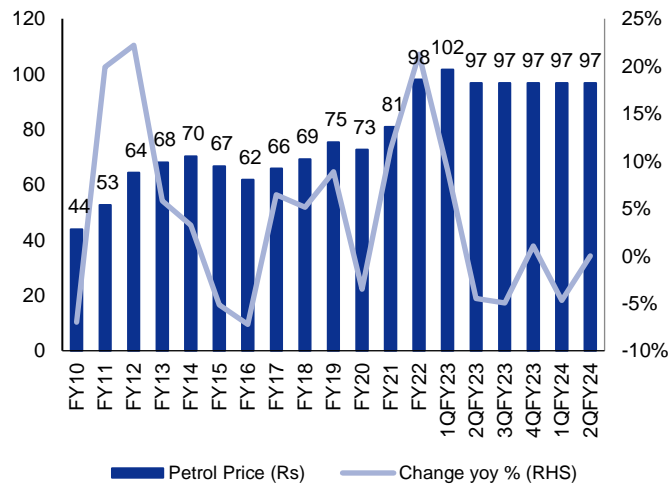
SOURCE: VAHAN, INCRED RESEARCH

Figure 4: Retail sales of various vehicle segments – EV segment witnesses a marginal recovery



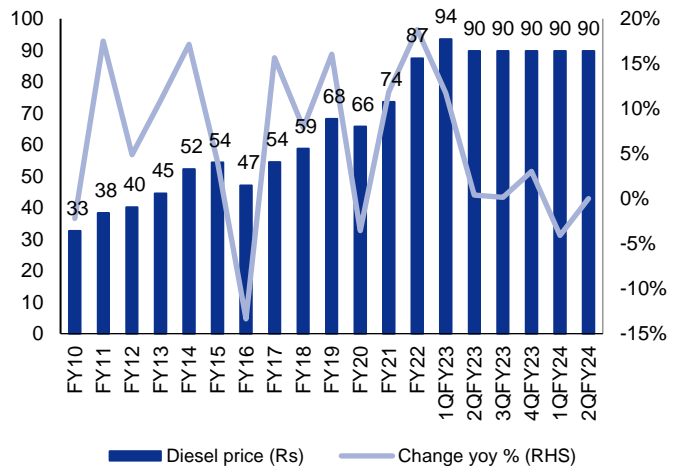
SOURCE: VAHAN, INCRED RESEARCH

Figure 5: Petrol prices are stable



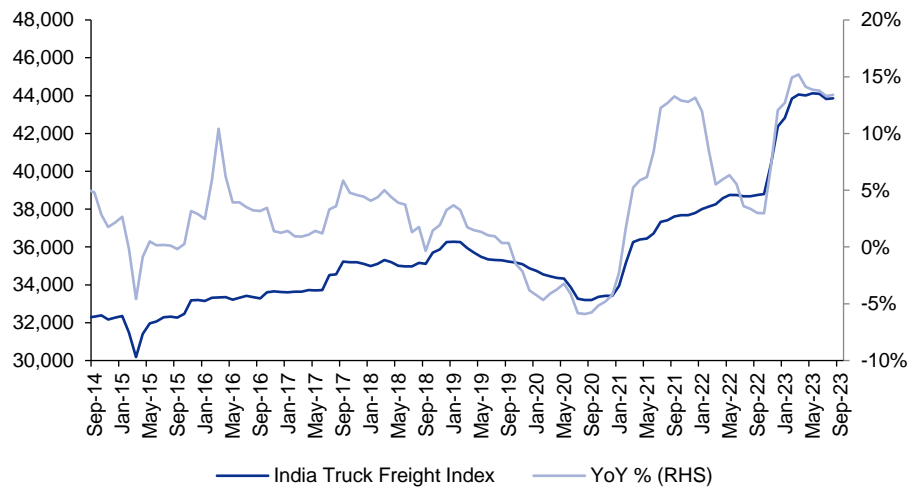
SOURCE: INDIAN OIL CORPORATION (IOC), CMIE (THE CENTRE FOR MONITORING INDIAN ECONOMY), COMPANY REPORTS

Figure 6: Diesel prices are also stable



SOURCE: IOC, CMIE, INCRED RESEARCH

Figure 7: Truck Freight Index sustains its peak level



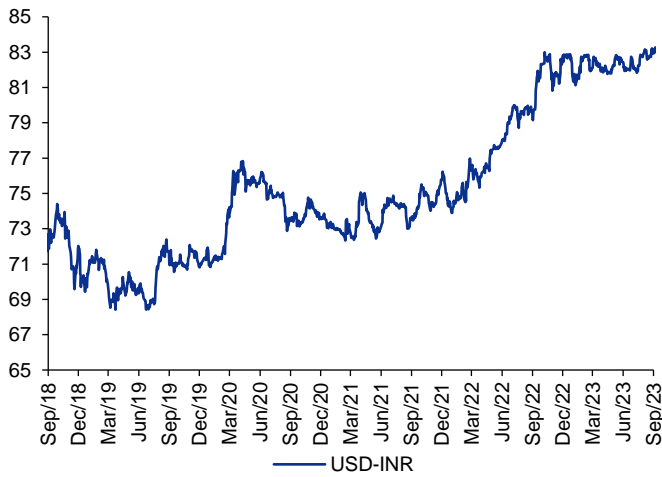
SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 8: Currency trend for the Sep 2023 quarter

Average Rates	2QFY24	2QFY23	yoy (%)	1QFY24	qoq (%)
USD - INR	82.65	79.82	3.5%	82.21	0.5%
JPY - INR	0.57	0.58	-0.8%	0.60	-4.3%
EUR - INR	89.97	80.37	11.9%	89.44	0.6%
USD - JPY	144.51	138.58	4.3%	137.68	5.0%
GBP - USD	1.27	1.18	7.6%	1.25	1.1%
GBP - EUR	1.16	1.17	-0.4%	1.15	1.2%

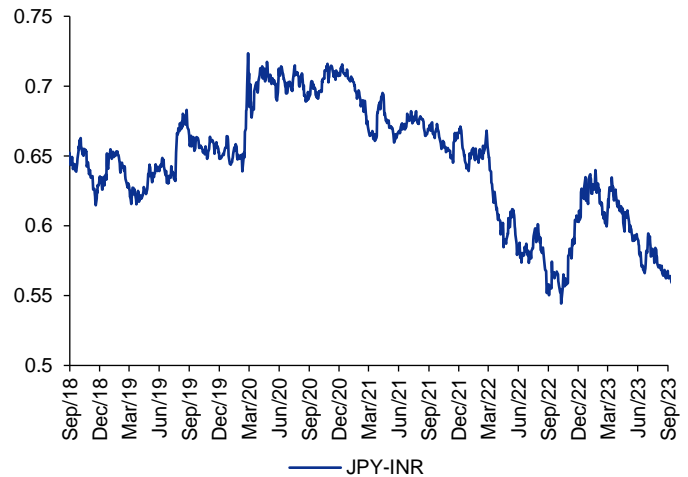
SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 9: USD-INR currency trend is flattish



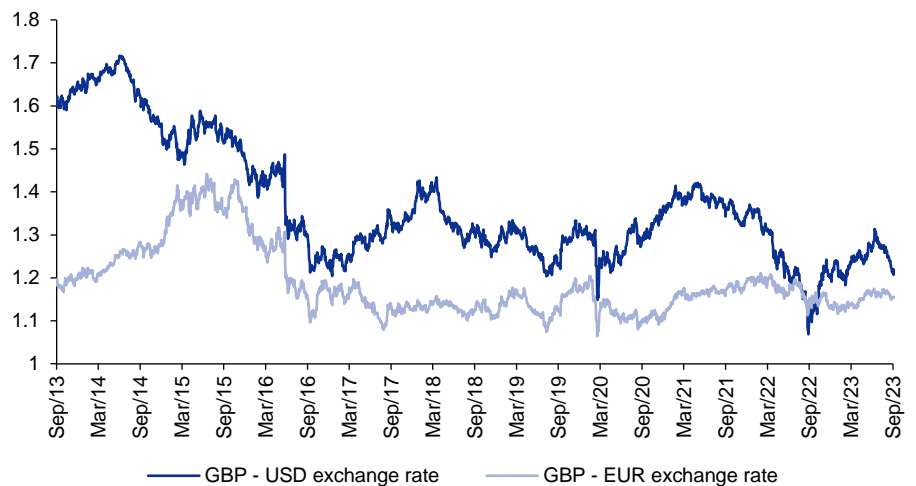
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 10: JPY-INR currency movement is in a downtrend



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 11: Cross-currency movement to impact JLR's profitability



SOURCE: BLOOMBERG, INCRED RESEARCH

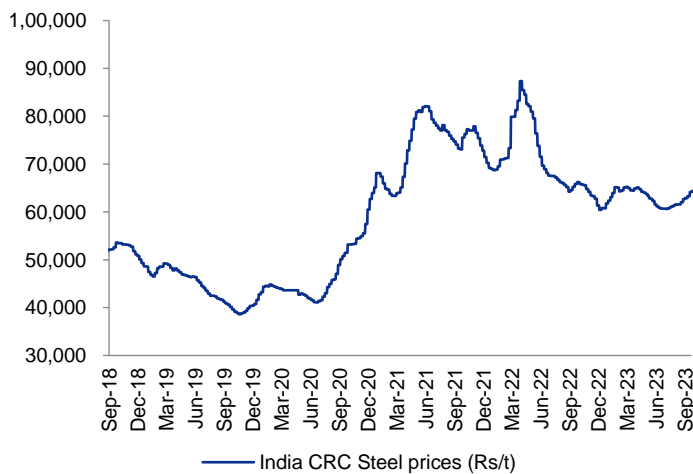
Figure 12: Commodity price trend

	2QFY24	2QFY23	YoY (%)	1QFY24	QoQ (%)	30-Sep-23
CRC Steel (Rs/t)	61,791	66,189	-7%	63,116	-2%	65,100
Lead (US\$/t)	2,176	1,976	10%	2,118	3%	2,179
Rubber (Rs/kg)	149	163	-8%	155	-4%	152
Aluminum (US\$/t)	2,204	2,357	-7%	2,280	-3%	2,445
Copper (US\$/t)	8,401	7,731	9%	8,476	-1%	8,966
Palladium (US\$/ounce)	1,251	2,075	-40%	1,444	-13%	1,609
Rhodium (US\$/ounce)	4,164	14,413	-71%	7,110	-41%	8,000

NOTE: PLATINUM GROUP METALS (PGM)

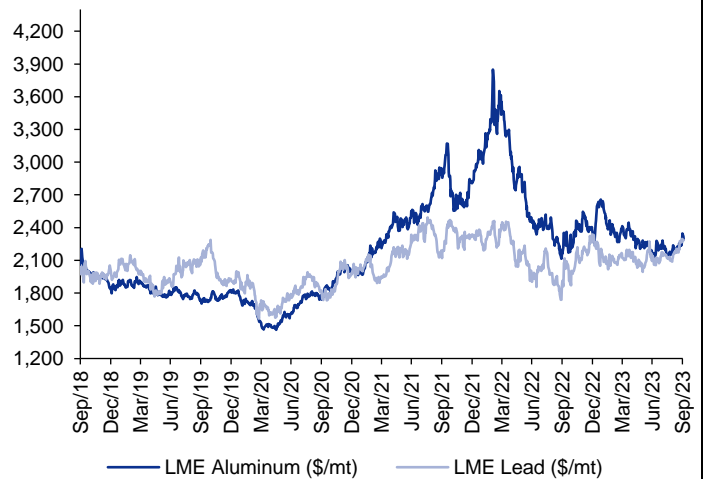
SOURCE: BLOOMBERG, STEEL MINT, INCRED RESEARCH

Figure 13: Steel prices have marginally risen in recent months



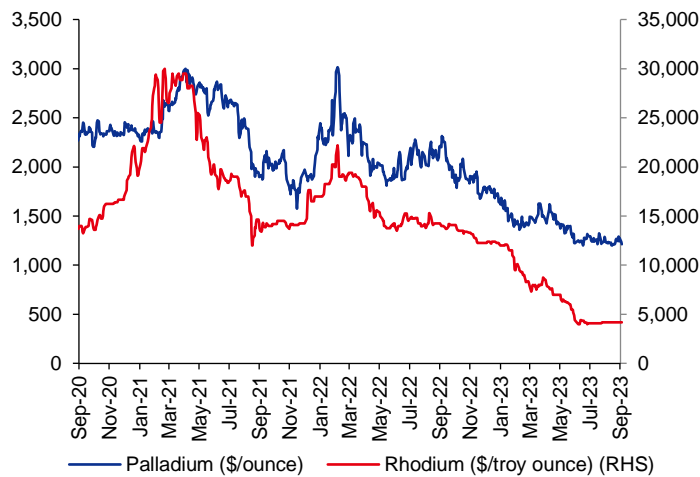
SOURCE: STEEL MINT, INCRED RESEARCH

Figure 14: Aluminium and lead price trends



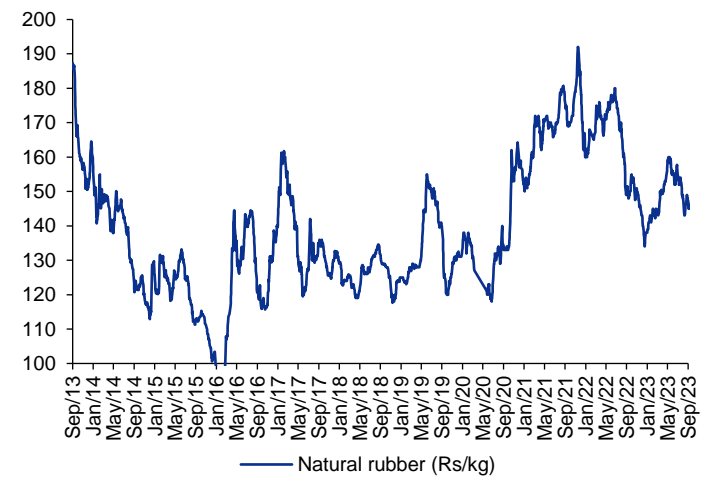
SOURCE: BLOOMBERG, LONDON METAL EXCHANGE, INCRED RESEARCH

Figure 15: Palladium and rhodium prices stabilize



SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 16: Natural rubber prices on the decline



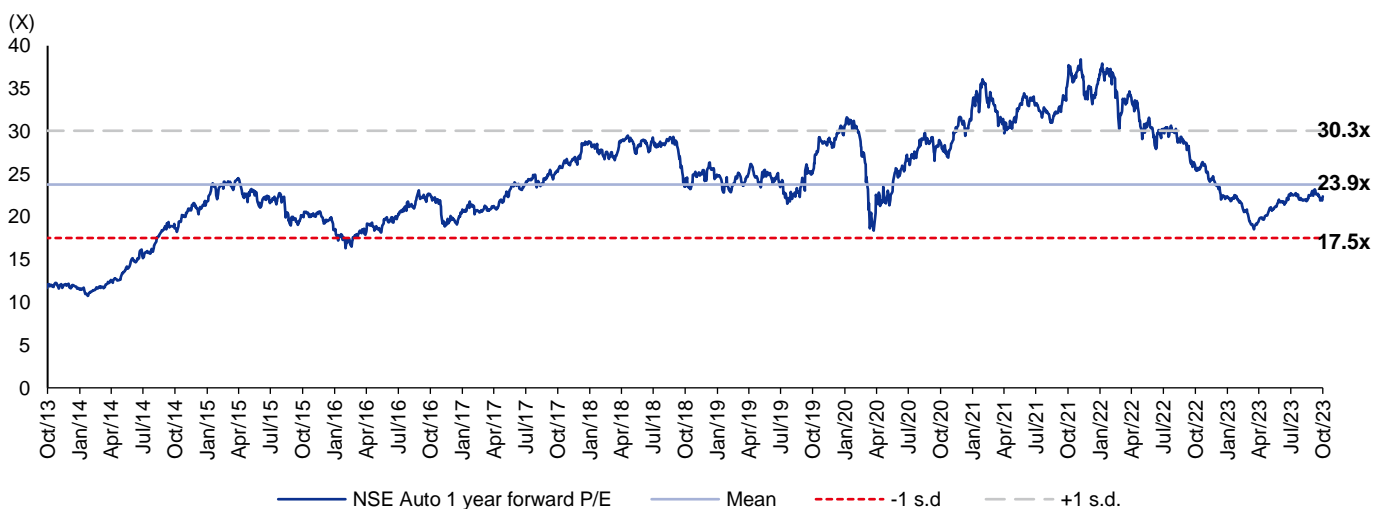
SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 17: 2QFY24F earnings and their comparison with Bloomberg consensus estimates

2QFY24F (Rs m)	Bloomberg Estimates			Bloomberg EBITDA Margin	InCred Research Estimates			InCred EBITDA Margins	% Variation		
	Revenue	EBITDA	PAT		Revenue	EBITDA	PAT		Revenue	EBITDA	PAT
Ashok Leyland	97,702	10,754	5,971	11.0%	100,251	10,827	5,543	10.8%	2.5	0.7	-7.7
Bajaj Auto	109,685	21,264	17,827	19.4%	107,877	21,842	18,310	20.2%	-1.7	2.6	2.6
Eicher Motors	40,376	10,257	9,142	25.4%	40,085	10,028	8,622	25.0%	-0.7	-2.3	-6.0
Escorts Kubota	20,844	2,690	2,294	12.9%	21,709	2,583	2,125	11.9%	4.0	-4.1	-7.9
Hero MotoCorp	93,973	13,067	9,572	13.9%	93,195	12,546	9,559	13.5%	-0.8	-4.2	-0.1
Mahindra & Mahindra	249,678	31,473	30,734	12.6%	254,418	34,501	31,123	13.6%	1.9	8.8	1.2
Maruti Suzuki	367,402	40,581	30,356	11.0%	363,711	41,496	31,081	11.4%	-1.0	2.2	2.3
Tata Motors	1,081,543	137,631	42,775	12.7%	1,080,401	159,212	44,017	14.7%	-0.1	13.6	2.8
TVS Motor	81,549	9,277	5,397	11.4%	82,978	8,397	4,597	10.1%	1.7	-10.5	-17.4
Apollo Tyres	63,930	10,569	4,220	16.5%	67,167	10,747	4,419	16.0%	4.8	1.6	4.5
Balkrishna Industries	22,287	5,378	3,176	24.1%	22,276	5,279	2,797	23.7%	0.0	-1.9	-13.5
Bharat Forge	22,127	5,857	3,468	26.5%	21,593	5,434	3,124	25.2%	-2.5	-7.8	-11.0
Bosch Ltd.	42,943	5,619	4,382	13.1%	42,841	5,373	4,463	12.5%	-0.2	-4.6	1.8
Endurance Technologies	25,913	3,445	1,780	13.3%	26,650	3,571	1,888	13.4%	2.8	3.5	5.7
Exide Industries	40,164	4,526	2,618	11.3%	40,164	4,678	2,875	11.6%	0.0	3.3	8.9
SAMIL	224,215	19,319	6,203	8.6%	239,718	21,117	6,882	8.8%	6.5	8.5	9.9
Schaeffler India	18,886	3,585	2,418	19.0%	19,700	3,852	2,538	19.6%	4.1	7.0	4.7
SKF India	12,061	2,169	1,631	18.0%	11,925	2,237	1,668	18.8%	-1.1	3.1	2.2
Timken India	7,281	1,450	994	19.9%	7,510	1,515	1,041	20.2%	3.1	4.3	4.5

SOURCE: BLOOMBERG CONSENSUS ESTIMATES, INCRED RESEARCH, COMPANY REPORTS

Figure 18: Forward P/E valuation remains comfortable below the mean level



SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 19: Valuations of companies in our auto sector coverage universe

Company Name	Recom.	Price	Target Price	Market Capital	Market Capital	EPS (Rs)		P/E (x)		P/BV (x)		EV/ EBITDA (x)	Dividend Yield (%)	Upside/ Downside %	ROE
		Rs	Rs	(Rs m)	(US\$ m)	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F	FY24F	FY24F		FY24F
Maruti Suzuki	ADD	10,401	11,061	3,141,087	37,802	371.4	464.9	28.0	22.4	4.6	4.0	17.8	1.0%	6.3%	17.4%
Tata Motors	REDUCE	635	401	2,431,064	29,257	19.3	38.2	33.0	16.6	4.8	3.8	5.7	0.6%	-36.8%	15.3%
Hero MotoCorp	REDUCE	3,053	2,419	610,029	7,342	194.9	221.2	15.7	13.8	3.4	3.2	9.7	4.3%	-20.8%	22.5%
Mahindra & Mahindra	ADD	1,550	1,632	1,720,980	20,712	89.1	95.9	17.4	16.2	3.4	3.0	6.9	1.5%	5.3%	21.1%
Escorts Kubota	REDUCE	3,384	2,019	378,331	4,553	100.3	105.4	33.7	32.1	4.0	3.6	28.1	0.4%	-40.3%	12.6%
Bajaj Auto	ADD	5,057	5,573	1,463,373	17,611	243.0	277.2	20.8	18.2	5.3	4.9	14.8	3.4%	10.2%	26.5%
Ashok Leyland	ADD	176	205	515,767	6,207	7.3	9.4	24.0	18.8	5.5	4.8	12.8	2.3%	16.7%	24.1%
Eicher Motors	REDUCE	3,473	3,053	949,171	11,423	132.4	145.4	26.2	23.9	6.1	5.3	19.5	1.2%	-12.1%	25.3%
TVS Motor	REDUCE	1,552	926	737,141	8,871	32.5	35.4	47.8	43.9	10.2	8.7	24.9	0.5%	-40.3%	23.3%
Endurance Technologies	ADD	1,595	1,647	224,365	2,700	50.3	62.9	31.7	25.3	4.5	3.9	16.8	0.6%	3.3%	15.1%
Balkrishna Industries	REDUCE	2,587	1,790	500,106	6,019	65.9	80.3	39.3	32.2	5.9	5.3	23.2	0.9%	-30.8%	15.9%
Exide Industries	ADD	262	294	222,828	2,682	13.9	16.5	18.9	15.9	1.9	1.8	11.3	2.7%	12.1%	10.2%
Bharat Forge	ADD	1,116	1,110	519,665	6,254	20.5	26.8	54.4	41.7	5.7	4.9	24.8	0.9%	-0.5%	12.1%
Apollo Tyres	REDUCE	379	343	240,608	2,896	23.4	24.6	16.2	15.4	1.7	1.6	6.3	1.8%	-9.5%	11.1%
Bosch Ltd.	REDUCE	19,705	16,401	581,100	6,993	505.9	572.2	39.0	34.4	5.0	4.7	26.5	1.5%	-16.8%	13.2%
SAMIL	ADD	95	115	643,961	7,750	4.2	5.6	22.6	17.1	2.6	2.4	8.6	1.1%	21.0%	12.1%

NOTE: VALUATION MULTIPLE OF M&M IS ADJUSTED FOR SUBSIDIARY VALUE OF RS578/SHARE.

SOURCE: BLOOMBERG, INCRED RESEARCH ESTIMATES, COMPANY REPORTS, PRICES AS ON 11 OCT 2023

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