

India

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Overweight (no change)**Highlighted Companies****Bajaj Auto****ADD, TP Rs5775, Rs6046 close**

Industry retail sales were up 8% in Sep-Nov 2023 while Bajaj Auto's sales grew at twice this rate. The production ramp-up plan for Triumph bikes and E3W in 2HFY24F to drive profitability, in our view. We retain our ADD rating on the stock.

Mahindra & Mahindra**HOLD, TP Rs1595, Rs1626 close**

Considering that the tractor division accounts for a large portion of M&M's profitability and the company being the leader with a 42% market share, it will be most vulnerable to industry volume collapse from its peak. We downgrade our rating on M&M to HOLD (ADD earlier).

Maruti Suzuki**ADD, TP Rs12552, Rs10586 close**

The merger of Suzuki's Gujarat plant with the company and the plan to double capacity in the medium term gives visibility on driving strong growth in the under-penetrated car segment. We retain our ADD rating on the stock.

Summary Valuation Metrics

| P/E (x) | Mar24-F | Mar25-F | Mar26-F |
|---------------------|---------|---------|---------|
| Bajaj Auto | 24.88 | 21.55 | 19.14 |
| Mahindra & Mahindra | 18.49 | 17.63 | 16.31 |
| Maruti Suzuki | 25.89 | 22.12 | 20.84 |
| P/BV (x) | Mar24-F | Mar25-F | Mar26-F |
| Bajaj Auto | 6.33 | 5.81 | 5.3 |
| Mahindra & Mahindra | 3.54 | 3.11 | 2.76 |
| Maruti Suzuki | 4.84 | 3.65 | 3.3 |
| Dividend Yield | Mar24-F | Mar25-F | Mar26-F |
| Bajaj Auto | 2.75% | 3.23% | 3.56% |
| Mahindra & Mahindra | 1.49% | 1.83% | 1.99% |
| Maruti Suzuki | 1.36% | 1.65% | 1.89% |

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Autos**Nov 2023 sales volume performance**

- Festive season retail sales were good, especially for 2W, which scaled a new peak. Wholesale dispatches beat was in 2W, but the miss was in CV & tractor.
- Rural demand revival may have helped entry-level bike sales in the festive season, but assembly polls in 5 states seem to have hit CV sales in Nov 2023.
- We retain our Overweight rating on the auto sector on sustenance of demand improvement. However, we turn cautious on the tractor segment's growth.

Nov 2023 sales volume highlights

- YoY growth leaders were Bajaj Auto (+32%), TVS Motor (+31%), Hero MotoCorp (+26%), Mahindra & Mahindra (+16%), Eicher Motors (+13%), Escorts Kubota (+4%) & Maruti Suzuki (+3%). The laggards were Ashok Leyland (-4%) & Tata Motors (-2%).
- MoM laggards were Escorts Kubota (-38%), Mahindra & Mahindra or M&M (-22%), Maruti Suzuki (-18%), TVS Motor (-17%), Ashok Leyland (-17%), Hero MotoCorp (-15%), Bajaj Auto (-15%), Tata Motors (-11%) and Eicher Motors (-7%).
- Beat vs. our expectations: Hero MotoCorp (+9%) and Bajaj Auto (+1%).
- Miss vs. our expectations: Tata Motors (-20%), Ashok Leyland (-18%), Escorts Kubota (-14%), Maruti Suzuki (-10%), Eicher Motors (-8%), M&M (-7%) and TVS Motor (-4%).
- Vahan retail sales volume witnessed a sharp 24% rise yoy in both two-wheelers or 2Ws and cars, aided by the festive season. Electric vehicle or EV retail sales sustained their MoM improvement trend, but still 5% below the last festive season's peak level.
- The market share spike for Hero MotoCorp in two-wheelers was impressive.

Maintain sector overweight rating

- The weakness in commercial vehicle or CV sales in Nov 2023 was a disappointment. Our channel check indicates that assembly polls in five states impacted the CV sales momentum temporarily, but they may bounce back on India's likely strong gross domestic product or GDP momentum.
- As per the dealers' association, FADA, during the 42-day festive period in FY23 (which started on the first day of the Navratri festival and ended 15 days post Dhanteras), sales touched a new milestone, with vehicle sales climbing to 3.79m, a 19% growth from last year's 3.19m. Record-breaking sales were reported in several categories, with rural areas particularly contributing to the surge in two-wheeler sales. Despite the initial underperformance during the Navratri festival, particularly in the passenger vehicle segment, the situation improved by Deepawali, ending with a 10% growth rate.
- With the Nifty Auto Index's forward P/E valuation below its 10-year mean providing comfort, we retain our Overweight rating on automobile OEMs and Neutral rating on automobile component makers. The key risks are poor rainfall distribution delaying the recovery in rural demand.
- We recently downgraded our rating on M&M to HOLD (ADD earlier) as concerns over the tractor industry's cyclical downturn are on the rise. The pecking order of our ADD-rated stocks is Bajaj Auto, Maruti Suzuki and Ashok Leyland. We retain our REDUCE rating on Tata Motors, Eicher Motors, Escorts Kubota & TVS Motor.

Figure 1: Monthly automobile wholesale dispatches in Nov 2023

| Company | Nov-23 | YoY % | MoM % | Apr 23-Nov 23 | YoY % | vs forecast |
|---------------------|----------|-------|--------|---------------|-------|-------------|
| Maruti Suzuki | 1,64,439 | 3.4 | (17.5) | 14,13,741 | 7.8 | (10.1) |
| Mahindra & Mahindra | 1,02,650 | 15.6 | (21.7) | 8,37,076 | 12.0 | (6.9) |
| Tata Motors | 74,172 | (1.7) | (10.6) | 6,26,395 | (0.3) | (20.2) |
| Bajaj Auto | 4,03,003 | 31.5 | (14.5) | 29,55,551 | 6.1 | 1.3 |
| Eicher Motors | 85,445 | 12.9 | (7.0) | 6,80,442 | 14.6 | (7.8) |
| Hero MotoCorp | 4,91,050 | 25.6 | (14.6) | 38,35,080 | 4.7 | 9.1 |
| TVS Motor | 3,64,231 | 31.4 | (16.9) | 28,64,710 | 11.4 | (4.0) |
| Ashok Leyland | 14,053 | (3.5) | (16.7) | 1,22,092 | 6.8 | (18.4) |
| Escorts Kubota | 8,258 | 3.7 | (37.5) | 70,064 | (4.0) | (14.0) |

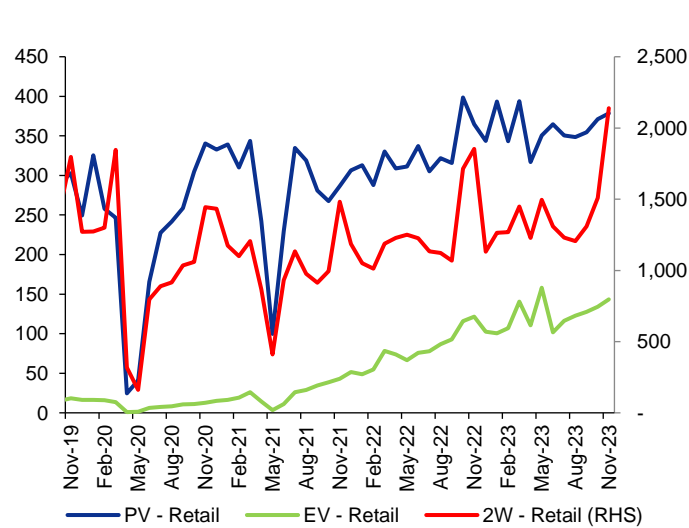
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Monthly automobile wholesale dispatches (company-wise and segment-wise)

| Company | Nov-23 | YoY % | MoM % | Apr 23-Nov 23 | YoY % | vs forecast |
|--------------------------------|-----------------|--------------|---------------|------------------|--------------|---------------|
| Maruti Suzuki | | | | | | |
| Domestic | 1,41,489 | 1.6 | (20.2) | 12,36,298 | 8.5 | (11.6) |
| Exports | 22,950 | 16.3 | 4.6 | 1,77,443 | 2.7 | (0.2) |
| Grand Total | 1,64,439 | 3.4 | (17.5) | 14,13,741 | 7.8 | (10.1) |
| Mahindra & Mahindra | | | | | | |
| Utility Vehicles | 39,981 | 31.6 | (8.5) | 2,98,604 | 29.0 | (0.0) |
| Pick-up, Gio & Maxximo | 21,367 | 13.4 | (13.4) | 1,69,408 | 7.2 | (17.8) |
| 3-Wheelers | 6,568 | 26.4 | (30.1) | 55,196 | 53.9 | (17.9) |
| Trucks & Buses | 844 | 11.8 | (18.1) | 8,278 | 46.4 | (29.7) |
| Tractors | 32,074 | 5.1 | (36.4) | 2,87,604 | (2.4) | (2.8) |
| Auto Exports | 1,816 | (41.8) | (2.0) | 17,986 | (16.9) | (9.2) |
| Grand Total | 1,02,650 | 15.6 | (21.7) | 8,37,076 | 12.0 | (6.9) |
| Tata Motors | | | | | | |
| CVs | 28,029 | (3.5) | (18.3) | 2,52,226 | (4.3) | (26.2) |
| PVs | 46,143 | (0.6) | (5.1) | 3,74,169 | 2.5 | (16.1) |
| Grand Total | 74,172 | (1.7) | (10.6) | 6,26,395 | (0.3) | (20.2) |
| Bajaj Auto | | | | | | |
| Motorcycles | 3,49,048 | 33.2 | (14.5) | 25,28,105 | 2.3 | 2.7 |
| 3-Wheelers | 53,955 | 21.4 | (14.4) | 4,27,446 | 35.2 | (7.0) |
| Grand Total | 4,03,003 | 31.5 | (14.5) | 29,55,551 | 6.1 | 1.3 |
| Eicher Motors | | | | | | |
| Royal Enfield | 80,251 | 13.4 | (5.0) | 6,28,727 | 14.7 | (6.1) |
| VECV | 5,194 | 5.9 | (30.6) | 51,715 | 12.4 | (27.7) |
| Grand Total | 85,445 | 12.9 | (7.0) | 6,80,442 | 14.6 | (7.8) |
| Hero MotoCorp | | | | | | |
| Grand Total | 4,91,050 | 25.6 | (14.6) | 38,35,080 | 4.7 | 9.1 |
| TVS Motor | | | | | | |
| Domestic 2W | 2,87,017 | 49.7 | (16.8) | 21,57,962 | 22.8 | 4.8 |
| Export 2W | 65,086 | (9.5) | (14.0) | 5,99,342 | (12.9) | (25.9) |
| 3W | 12,128 | (10.0) | (30.5) | 1,07,406 | (14.5) | (30.5) |
| Grand Total | 3,64,231 | 31.4 | (16.9) | 28,64,710 | 11.4 | (4.0) |
| Ashok Leyland | | | | | | |
| MHCVs | 8,500 | (10.3) | (16.5) | 76,936 | 7.8 | (21.9) |
| LCVs | 5,553 | 9.2 | (16.9) | 45,156 | 5.0 | (12.2) |
| Grand Total | 14,053 | (3.5) | (16.7) | 1,22,092 | 6.8 | (18.4) |
| Escorts Kubota | | | | | | |
| Domestic | 7,855 | 6.7 | (37.9) | 66,191 | (1.5) | (9.7) |
| Exports | 403 | (32.9) | (28.4) | 3,873 | (32.6) | (55.2) |
| Grand Total | 8,258 | 3.7 | (37.5) | 70,064 | (4.0) | (14.0) |

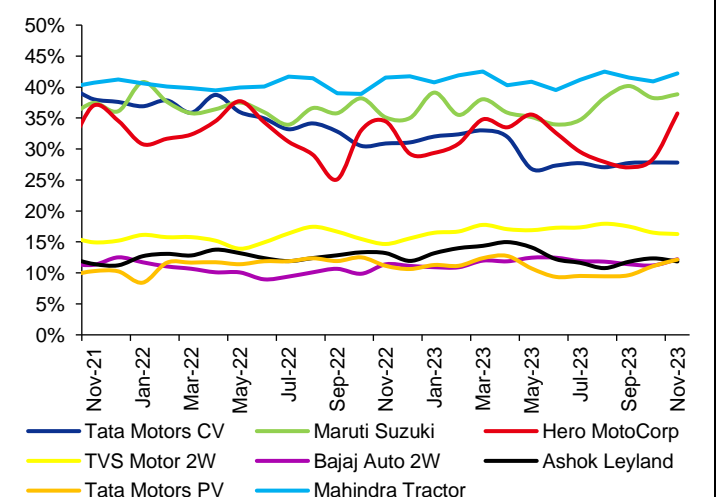
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Domestic retail sales growth trend (in '000 units)



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Domestic retail segment market share of various players



SOURCE: INCRED RESEARCH, COMPANY REPORTS

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