

India

**Overweight** (no change)

**Highlighted Companies**

**Ashok Leyland**

**ADD, TP Rs208, Rs175 close**

Consolidation in the CV industry's growth, we feel, is short-term in nature while the recovery in IIP growth and easing interest rates to drive CV sector volume, which will benefit Ashok Leyland.

**Bharat Forge**

**ADD, TP Rs1273, Rs1284 close**

The company's industrial division's strong growth to surprise, both on sales and profitability fronts. Improving capacity utilization to help reduce losses in the EV component business and at its US plant.

**Tata Motors**

**REDUCE, TP Rs552, Rs808 close**

Rich +2SD above the mean P/BV valuation factors in the good benefit from JLR product mix and the EV euphoria. They undermine the risk of global EV threat to JLR, and also market share risk in India.

**Summary Valuation Metrics**

P/E (x)	Mar24-F	Mar25-F	Mar26-F
Ashok Leyland	20.95	18.31	17.37
Bharat Forge	61.62	47.77	38.9
Tata Motors	17.72	14.37	11.8

**P/BV (x)**

	Mar24-F	Mar25-F	Mar26-F
Ashok Leyland	5.3	4.66	4.15
Bharat Forge	6.54	5.66	4.86
Tata Motors	4.91	3.77	2.94

**Dividend Yield**

	Mar24-F	Mar25-F	Mar26-F
Ashok Leyland	2.28%	2.85%	3.14%
Bharat Forge	0.78%	0.86%	0.86%
Tata Motors	0.52%	0.77%	1.03%

# Auto & Parts - Overall

## 3QFY24 results preview

- The volume recovery in the 2W segment was impressive in the festive season while the weakness in the tractor and CV segments disappointed.
- 3QFY24F EBITDA growth to be driven by volume growth as commodity prices remain benign. We are above consensus in the case of SAMIL & Tata Motors.
- The spike in Nifty Auto index's P/E in recent months has taken out the valuation comfort. We have turned selective on stocks based on the risk-reward ratio.

### Festive season recovery in 2W comforts, tractors & CVs disappoint

Aided by pent-up festive demand, domestic sales volume momentum improved for the two-wheeler or 2W sector (~20% yoy) while car demand growth was stable at close to double digits in 3QFY24. However, the weakness in the tractor segment (-5% yoy), we feel, is just the start of a deep cyclical drawdown. Assembly polls in big states like Rajasthan and Madhya Pradesh seem to have hit commercial vehicle or CV sales growth, which has seen weakness since Nov 2023. In terms of market share, Hero MotoCorp gained in the festive season and Tata Motors' car division as well via new vehicle launches.

### Subdued commodity prices continue to provide comfort

Commodity prices have remained subdued on a qoq basis (see Fig. 12), except for rhodium (+8%) and CRC (2%). However, the recent weekly rise in aluminium and rubber prices is a cause of concern. Currency fluctuation benefits US dollar-based exports and Maruti Suzuki's imports while JLR to be impacted by the adverse GBP-USD movement in 3Q.

### Strong Dec 2023 quarter result expectations

We expect the strong double-digit yoy growth in EBITDA to continue across OEMs aided by volume and benign commodity costs. The high achievers will be Escorts Kubota and Hero MotoCorp among original equipment manufacturers (OEMs) and Balkrishna Industries & SAMIL in the auto component segment. The qoq EBITDA momentum will be strong for Escorts Kubota and Bajaj Auto but weak for Maruti Suzuki and TVS Motor. In our coverage universe's EBITDA estimates, we are substantially above Bloomberg consensus estimates in the case of SAMIL, Tata Motors and Schaeffler India but sharply below consensus estimates in the case of Bosch, Endurance Technologies and Eicher Motors.

### Valuation comfort eases for Nifty auto index; turn selective on stocks

The sharp rise in Nifty Auto Index in the last three months led the forward P/E valuation to reach just 10% below +1SD of the 10-year mean (Fig. 18). The outperformers were Bajaj Auto, Hero MotoCorp and TVS Motor while the laggards were Escorts Kubota and Maruti Suzuki. The best of lower commodity costs has been captured in the EBITDA margin, and future EPS growth will be linked to predominantly sector volume growth and market share gains of individual OEMs. We have turned selective in stocks, retaining our Overweight (OW) rating on automobile OEMs and Neutral rating on automobile component makers. The pecking order of our ADD-rated stocks is Maruti Suzuki, Ashok Leyland & Bajaj Auto. We retain our REDUCE rating on Tata Motors, Eicher Motors, Escorts Kubota & TVS Motor.

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**Figure 1: 3QFY24F financials of our coverage universe**

(Rs m)	Revenue	YoY%	QoQ%	EBITDA	YoY%	QoQ%	Adjusted PAT	YoY%	QoQ%
Ashok Leyland	93,170	3.2%	-3.3%	10,435	30.9%	-3.4%	5,551	56.6%	-4.8%
Bajaj Auto	1,21,083	30.0%	11.7%	23,116	30.1%	8.5%	19,278	29.3%	5.0%
Eicher Motors	39,292	5.6%	-4.5%	10,157	18.5%	-6.6%	9,195	24.1%	-9.5%
Escorts Kubota	24,986	10.4%	22.1%	3,123	64.1%	18.6%	2,661	42.8%	13.2%
Hero MotoCorp	96,375	20.0%	2.0%	13,171	42.5%	-0.8%	9,879	38.9%	-6.3%
Mahindra & Mahindra	2,61,737	20.9%	6.8%	33,883	20.4%	4.1%	21,212	-1.7%	-37.1%
Maruti Suzuki	3,33,119	14.7%	-10.1%	37,376	31.9%	-21.9%	28,323	20.5%	-23.8%
Tata Motors	10,99,747	24.3%	4.6%	1,60,758	30.9%	-1.2%	37,228	NA	-6.3%
TVS Motor	82,446	26.0%	1.2%	8,718	32.3%	-3.1%	4,667	32.3%	-6.5%
Apollo Tyres	68,353	6.4%	8.8%	11,278	23.5%	-2.8%	4,739	62.2%	-2.6%
Balkrishna Industries	23,635	6.7%	5.2%	5,578	65.9%	1.9%	3,047	205.9%	-9.1%
Bharat Forge	22,562	15.6%	0.3%	5,858	9.5%	-3.5%	3,521	10.1%	1.2%
Bosch Ltd.	40,259	10.0%	-2.5%	4,080	1.1%	-17.0%	3,245	-0.1%	51.7%
Endurance Technologies	22,298	6.4%	-12.4%	2,902	21.2%	-8.8%	1,584	46.4%	2.5%
Exide Industries	39,161	15.0%	-4.6%	4,416	10.2%	-8.6%	2,649	18.7%	-7.7%
SAMIL	2,53,500	25.3%	8.0%	23,426	48.7%	24.0%	7,142	57%	80.4%
Schaeffler India	19,950	11.2%	7.6%	3,937	14.0%	15.7%	2,827	22%	21.5%
SKF India	11,789	9.3%	2.6%	1,686	-21.4%	-16.9%	1,256	-19%	-18.7%
Timken India	7,069	16.0%	1.7%	1,453	40.1%	10.0%	992	40%	1.6%

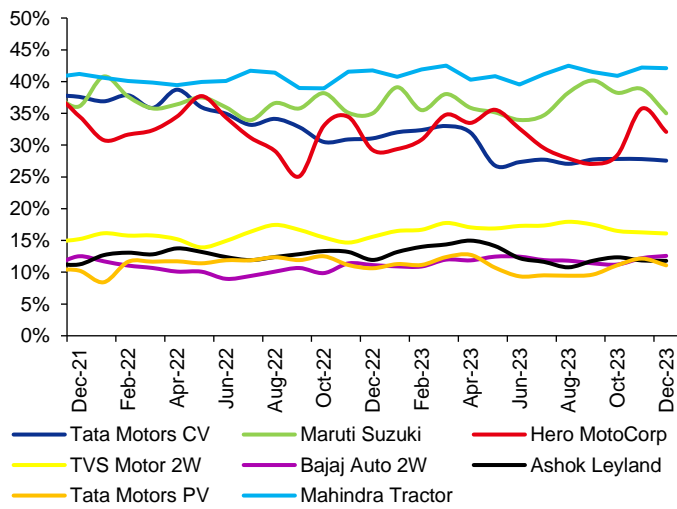
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: 3QFY24 sales volume performance of companies in our coverage universe

Company	3QFY24 sales volume	YoY%	QoQ%
Ashok Leyland	47,241	-0.7%	-5.2%
Bajaj Auto	12,00,997	22.1%	14.0%
Eicher Motors	2,51,542	5.0%	-1.7%
Escorts Kubota	25,999	-7.2%	18.1%
Hero MotoCorp	14,59,932	17.8%	3.1%
Mahindra & Mahindra	3,13,115	11.1%	3.6%
Maruti Suzuki	5,01,207	7.6%	-9.2%
Tata Motors (ex-JLR)	2,34,981	3.0%	-3.3%
TVS Motor	11,04,189	25.6%	2.8%

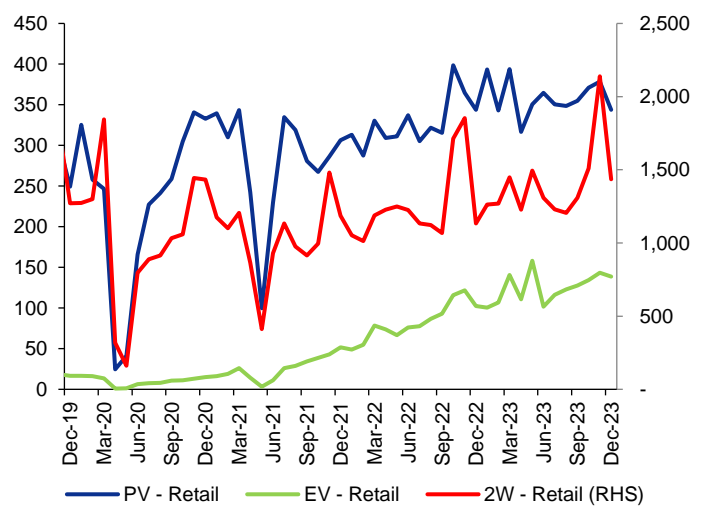
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Retail market share trend



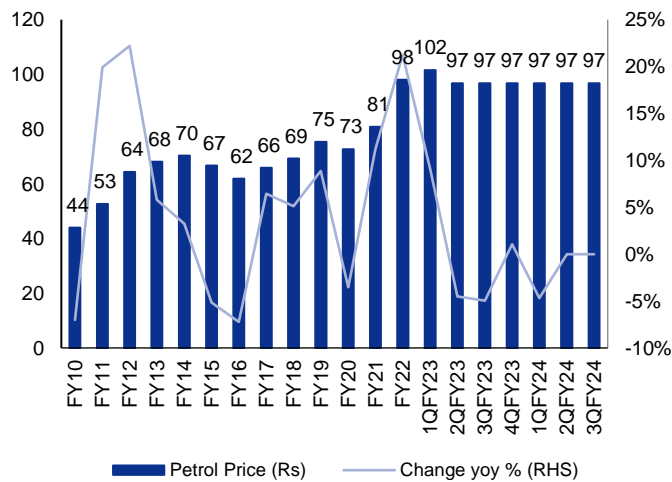
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Figure 4: Retail sales of various vehicle segments



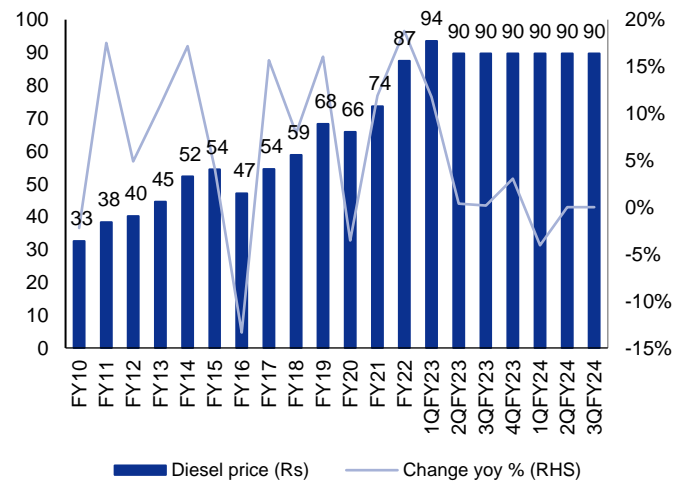
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Petrol prices remain stable (Rs/L)



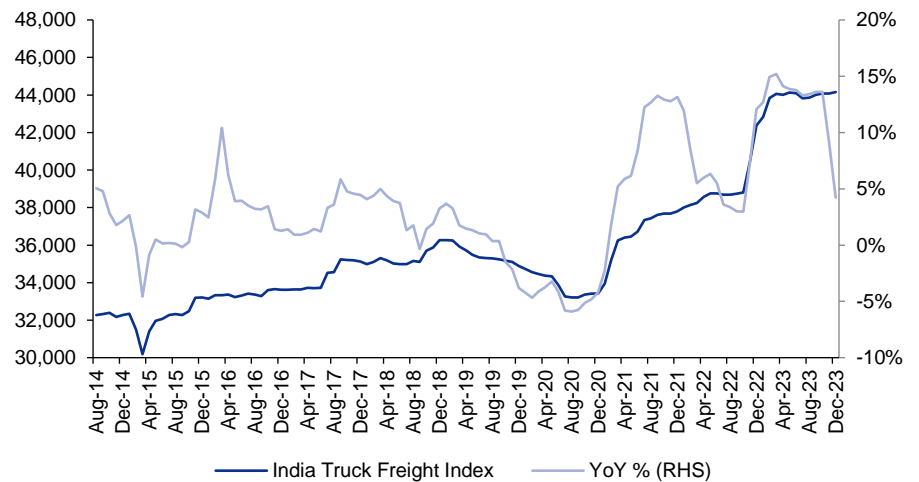
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Diesel prices also remain stable (Rs/L)



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Truck Freight Index's growth rate moderates



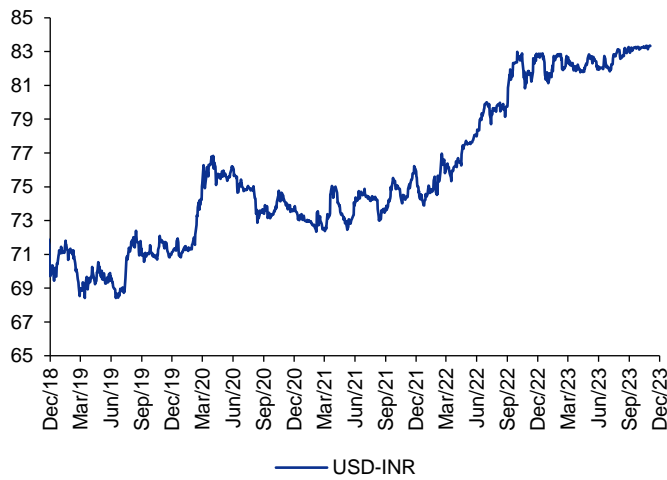
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Currency trend for the Dec 2023 quarter

Average Rates	3QFY24	3QFY23	yoy (%)	2QFY24	qoq (%)
USD - INR	83.27	82.22	1.3%	82.65	0.8%
JPY - INR	0.56	0.58	-3.5%	0.57	-1.5%
EUR - INR	89.57	84.09	6.5%	89.97	-0.4%
USD - JPY	147.76	140.94	4.8%	144.51	2.2%
GBP - USD	1.24	1.17	5.7%	1.27	-1.9%
GBP - EUR	1.15	1.15	0.4%	1.16	-0.9%

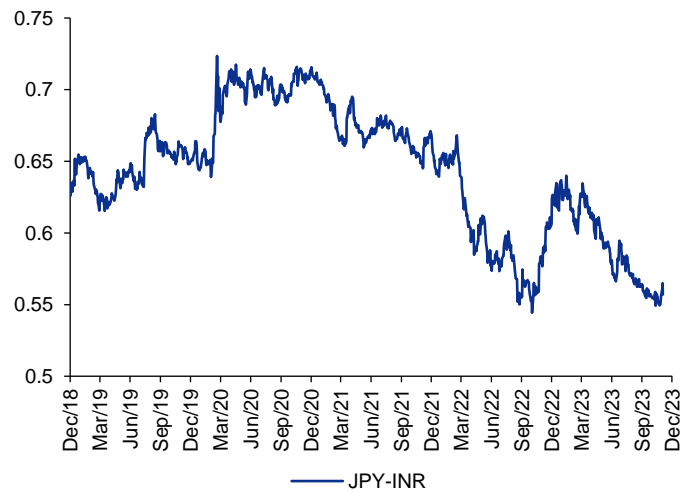
SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 9: USD-INR currency trend is flattish



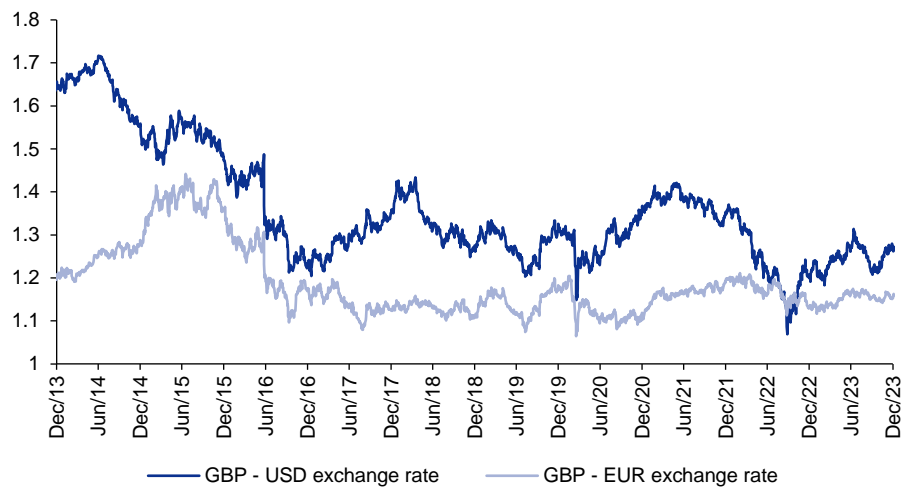
SOURCE: BLOOMBERG, INCRED RESEARCH

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



SOURCE: BLOOMBERG, INCRED RESEARCH

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



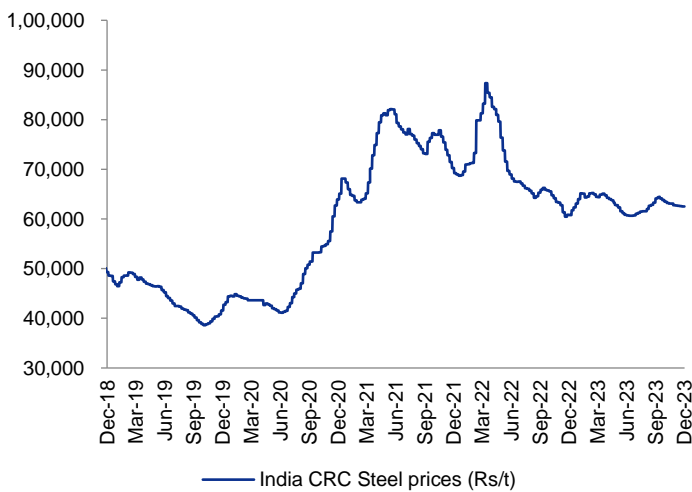
SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 12: Commodity price trend stable

	3QFY24	3QFY23	YoY (%)	2QFY24	QoQ (%)	31-Dec-23
CRC steel (Rs/t)	63,210	63,559	-1%	61,791	2%	62,531
Lead (US\$/t)	2,125	2,104	1%	2,160	-2%	2,036
Rubber (Rs/kg)	152	146	3%	149	2%	155
Aluminium (US\$/t)	2,226	2,355	-5%	2,204	1%	2,384
Copper (US\$/t)	8,249	8,005	3%	8,401	-2%	8,559
Palladium (US\$/ounce)	1,087	1,945	-44%	1,251	-13%	1,136
Rhodium (US\$/ounce)	4,488	13,370	-66%	4,164	8%	4,500

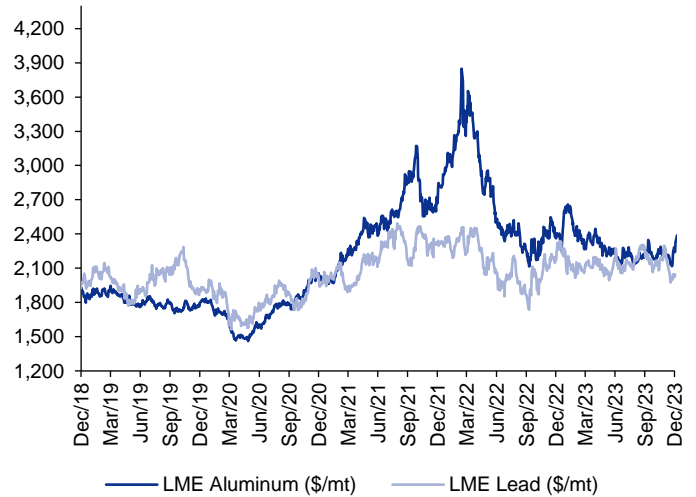
SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 13: Steel prices remain stable



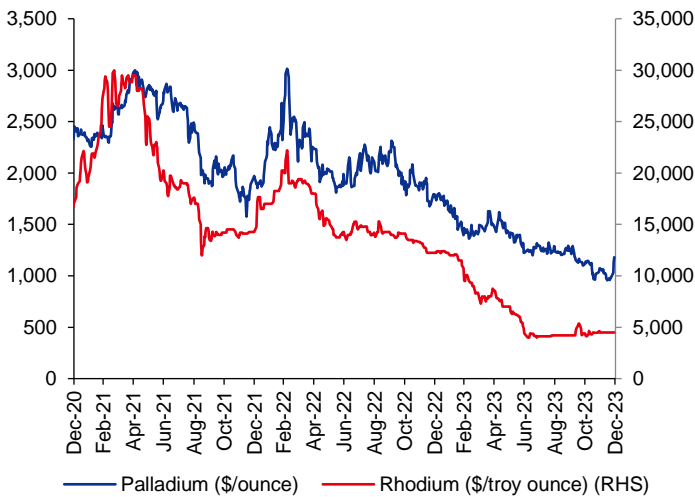
SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 14: Aluminium and lead price trends



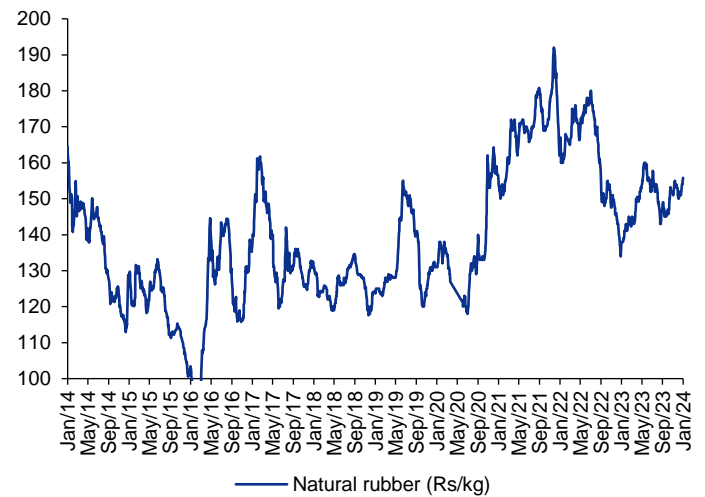
SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 15: Palladium and rhodium prices stabilize



SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 16: Natural rubber prices on the rise



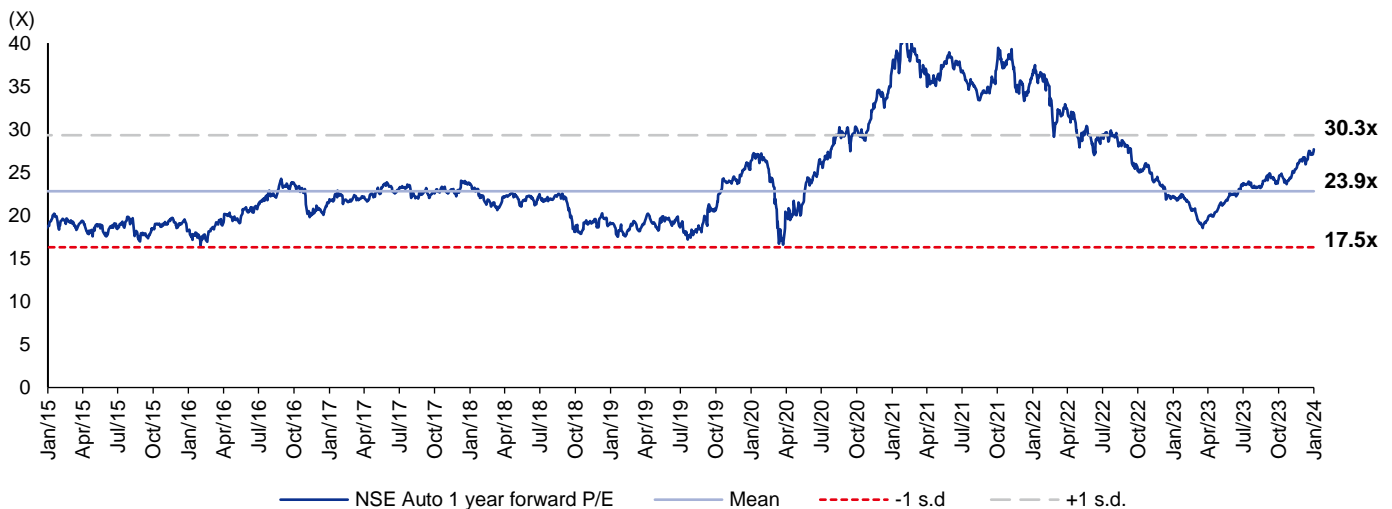
SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 17: 3QFY24F earnings of our coverage universe and their comparison with Bloomberg consensus estimates

3QFY24F (Rs m)	Bloomberg Estimates				InCred Research Estimates				% Variation		
	Revenue	EBITDA	PAT	EBITDA Margin	Revenue	EBITDA	PAT	EBITDA Margins	Revenue	EBITDA	PAT
Ashok Leyland	96,051	10,736	5,925	11.2%	93,170	10,435	5,551	11.2%	-3.1	-2.9	-6.7
Bajaj Auto	1,16,975	22,878	19,233	19.6%	1,21,083	23,116	19,278	19.1%	3.4	1.0	0.2
Eicher Motors	40,873	10,731	9,821	26.3%	39,292	10,157	9,195	25.8%	-4.0	-5.7	-6.8
Escorts Kubota	23,700	3,190	2,643	13.5%	24,986	3,123	2,661	12.5%	5.1	-2.1	0.7
Hero MotoCorp	94,746	12,970	9,918	13.7%	96,375	13,171	9,879	13.7%	1.7	1.5	-0.4
Mahindra & Mahindra	2,54,589	32,907	25,207	12.9%	2,61,737	33,883	21,212	12.9%	2.7	2.9	-18.8
Maruti Suzuki	3,41,120	38,496	29,937	11.3%	3,33,119	37,376	28,323	11.2%	-2.4	-3.0	-5.7
Tata Motors	10,71,260	1,30,671	38,355	12.2%	10,99,747	1,60,758	37,228	14.6%	2.6	18.7	-3.0
TVS Motor	81,151	9,112	5,320	11.2%	82,446	8,718	4,667	10.6%	1.6	-4.5	-14.0
Apollo Tyres	62,109	10,328	4,506	16.6%	68,353	11,278	4,739	16.5%	9.1	8.4	4.9
Balkrishna Industries	23,221	5,717	3,480	24.6%	23,635	5,578	3,047	23.6%	1.8	-2.5	-14.2
Bharat Forge	22,812	6,110	3,635	26.8%	22,562	5,858	3,521	26.0%	-1.1	-4.3	-3.2
Bosch Ltd.	42,108	4,863	3,981	11.5%	40,259	4,080	3,245	10.1%	-4.6	-19.2	-22.7
Endurance Technologies	25,787	3,399	1,736	13.2%	22,298	2,902	1,584	13.0%	-15.6	-17.1	-9.6
Exide Industries	39,333	4,672	2,700	11.9%	39,161	4,416	2,649	11.3%	-0.4	-5.8	-1.9
SAMIL	2,38,894	17,831	4,967	7.5%	2,53,500	23,426	7,142	9.2%	5.8	23.9	30.5
Schaeffler India	18,755	3,277	2,252	17.5%	19,950	3,937	2,827	19.7%	6.0	16.8	20.4
SKF India	12,060	2,044	N/A	16.9%	11,789	1,686	1,256	14.3%	-2.3	-21.2	N/A
Timken India	6,399	N/A	N/A	N/A	7,069	1,453	992	20.6%	9.5	N/A	N/A

SOURCE: BLOOMBERG, INCRED RESEARCH, COMPANY REPORTS

Figure 18: Forward P/E valuation trend



SOURCE: BLOOMBERG, INCRED RESEARCH, COMPANY REPORTS

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

Company Name	Price	Target Price	Recommendation	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	10,031	12,552	ADD	31,53,074	37,947	416.5	478.6	24.1	21.0	4.6	3.5	16.1	1.5%	25.1%	20.3%
Tata Motors	816	552	REDUCE	30,01,450	36,122	44.2	56.3	18.5	14.5	5.0	3.8	5.3	0.5%	-32.4%	30.7%
Hero MotoCorp	4,338	2,499	REDUCE	8,66,822	10,432	196.3	219.0	22.1	19.8	4.8	4.5	14.6	3.0%	-42.4%	22.7%
Mahindra & Mahindra	1,632	1,595	HOLD	18,12,469	21,813	87.9	92.2	18.6	17.7	3.6	3.1	7.7	1.4%	-2.3%	20.7%
Escorts Kubota	2,868	2,019	REDUCE	3,20,676	3,859	100.3	105.4	28.6	27.2	3.4	3.1	23.7	0.5%	-29.6%	12.6%
Bajaj Auto	7,303	5,775	ADD	21,13,124	25,431	243.0	280.6	30.1	26.0	7.6	7.0	22.6	2.3%	-20.9%	26.5%
Ashok Leyland	177	208	ADD	5,19,290	6,250	7.9	9.6	22.5	18.5	5.3	4.7	12.3	2.3%	17.6%	25.5%
Eicher Motors	3,897	3,127	REDUCE	10,65,036	12,817	139.8	150.2	27.9	25.9	6.9	5.9	21.9	1.2%	-19.8%	26.7%
TVS Motor	2,088	1,247	REDUCE	9,92,128	11,940	36.5	38.1	57.2	54.8	13.3	11.2	31.0	0.4%	-40.3%	26.0%
Endurance Technologies	2,027	1,647	ADD	2,85,117	3,431	47.5	59.5	42.7	34.1	5.8	5.1	22.2	0.4%	-18.7%	14.3%
Balkrishna Industries	2,667	2,160	REDUCE	5,15,541	6,204	66.6	80.3	40.1	33.2	6.1	5.4	24.6	0.7%	-19.0%	16.0%
Exide Industries	338	307	ADD	2,87,555	3,461	13.4	15.6	25.2	21.7	2.4	2.3	15.1	2.1%	-9.3%	9.9%
Bharat Forge	1,280	1,273	ADD	5,96,055	7,173	20.8	26.9	61.4	47.6	6.5	5.6	26.0	0.8%	-0.6%	12.2%
Apollo Tyres	470	362	REDUCE	2,98,243	3,589	26.6	27.2	17.7	17.3	2.1	1.9	7.3	1.5%	-22.9%	12.5%
Bosch Ltd	23,177	16,401	REDUCE	6,83,500	8,226	505.9	572.2	45.8	40.5	5.9	5.5	31.8	1.3%	-29.2%	13.2%
SAMIL	110	112	ADD	7,47,776	8,999	4.1	5.3	27.2	20.7	3.0	2.8	9.7	0.9%	1.5%	11.7%
Schaeffler India	3,304	3,350	ADD	5,15,385	6,207	68.7	78.4	45.5	39.9	9.1	8.1	29.3	1.0%	1.4%	21.5%
Timken India	3,363	2,856	REDUCE	2,52,864	3,043	54.3	67.7	54.5	43.7	9.2	7.6	22.5	0.1%	-15.1%	18.3%
SKF	4,553	5,148	ADD	2,24,931	2,707	134.0	153.3	33.7	29.5	7.6	6.2	20.3	0.4%	13.1%	22.6%

Note: Valuation multiple of M&M is adjusted for subsidiaries value of Rs579/share

SOURCE: BLOOMBERG, INCRED RESEARCH, COMPANY REPORTS

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