

India

Overweight (no change)

Highlighted Companies

Maruti Suzuki

ADD, TP Rs12554, Rs12267 close

Strong double-digit EBIT margin sustenance, we feel, will drive the upgrade while volume growth recovery and success of new launches will be gradual to come through.

Bharat Forge

ADD, TP Rs1366, Rs1169 close

Industrial capex-driven recovery to drive strong EBITDA margin expansion. Commencement of the electric vehicle component plant and scaling up of the US aluminium plant to be profit-accretive, in our view.

Ashok Leyland

ADD, TP Rs208, Rs178 close

CV demand recovery post new government formation, we feel, will be better captured by Ashok Leyland. Low vehicle financing-related NPAs and healthy profitability provide comfort.

Summary Valuation Metrics

P/E (x)	Mar24-F	Mar25-F	Mar26-F
Maruti Suzuki	29.56	25.26	23.75
Bharat Forge	55.08	42.71	34.98
Ashok Leyland	21.06	18.69	17.09

P/BV (x)	Mar24-F	Mar25-F	Mar26-F
Maruti Suzuki	5.6	4.21	3.8
Bharat Forge	5.91	5.11	4.38
Ashok Leyland	5.38	4.73	4.18

Dividend Yield	Mar24-F	Mar25-F	Mar26-F
Maruti Suzuki	1.17%	1.43%	1.63%
Bharat Forge	0.86%	0.94%	0.94%
Ashok Leyland	2.24%	2.8%	3.08%

Research Analyst(s)



Pramod AMTHE

T (91) 22 4161 1541

E pramod.amthe@incredresearch.com

Ravi GUPTA

T (91) 02241611552

E ravi.gupta@incredresearch.com

Auto & Parts - Overall

4QFY24 results preview

- Industry dispatches volume growth improved for 2W & cars while it weakened in the case of CVs & tractors. EV spike for incentive program closure in March.
- We are above Bloomberg consensus estimates in the case of Tata Motors, M&M, and SAMIL but below estimates for Bosch, Eicher & Ashok Leyland.
- We remain selective in our Overweight sector rating as valuations rise above the mean levels and commodity costs start rising from their lows.

Volume growth favours 2Ws & 4Ws in 4QFY24

Industry dispatches volume growth yoy improved in the case of two-wheeler or 2W and passenger vehicle segments in the Mar 2024 quarter (Fig. 2) while the decline rate accelerated for the tractor and commercial vehicle or CV segments. The retail sales momentum stands confirmed in the case of 2W segment. The yoy volume growth was led by Bajaj Auto, TVS Motor and Maruti Suzuki for the Mar 2024 quarter while the laggards were Escorts Kubota and Ashok Leyland (ALL). Overlooking the general elections period of Apr-Jun 2024, we feel consolidation in the CV segment to lead to strong growth in FY25F.

Commodity costs begin to rise from their lows

The price trend in commodities is mixed for the Mar 2024 quarter, as steel and lead prices eased on a qoq and yoy basis while the rest of the commodities recorded a rise. The sharp qoq rise in rubber (+10%) and copper (+4%) prices is a cause of concern. Currency fluctuations to favour importers, especially Maruti Suzuki's Japanese yen-based imports while JLR is expected to be impacted by an adverse GBP-USD movement.

Double-digit EBITDA growth likely for OEMs

We expect double-digit yoy growth in EBITDA for original equipment manufacturers or OEMs aided by volume growth and product mix improvement. The high achievers will be Maruti Suzuki and Tata Motors among OEMs, and Exide Industries & SAMIL in the auto component segment. The qoq EBITDA momentum will be strong for ALL and Maruti Suzuki. In our coverage universe's EBITDA estimates, we are above Bloomberg consensus in the case of Tata Motors, Mahindra & Mahindra or M&M, SAMIL and Exide Industries but below consensus estimates for Bosch, Schaffler India, Eicher Motors and ALL.

Valuations and commodity prices comfort eases

The sharp rise in the Nifty Auto Index (18%) in the last three months, outperforming the Nifty-50 index, has pushed forward P/E valuations above the 10-year mean level (Fig. 20). The outperformers were Bajaj Auto, Tata Motors and Maruti Suzuki. The gradual uptick in commodity costs, fuel prices along with the valuations leads to the discomfort, forcing us to be selective in stocks while retaining our Overweight (OW) rating on automobile OEMs and Neutral rating on automobile component makers. The key downside risk is prolonged high interest rates and a fuel price spike. The pecking order of our ADD-rated stocks is Maruti Suzuki, ALL & Bajaj Auto. We retain our REDUCE rating on Tata Motors, Eicher Motors, Escorts Kubota, TVS Motors and a HOLD rating on M&M.

Figure 1: 4QFY24F estimates of our coverage universe

(Rs m)	Revenue	YoY%	QoQ%	EBITDA	YoY%	QoQ%	Adjusted PAT	YoY%	QoQ%
Ashok Leyland	1,10,451	-5.0%	19.1%	13,917	9.1%	24.9%	7,783	12.0%	34.0%
Bajaj Auto	1,10,405	24.0%	-9.2%	20,976	22.2%	-13.1%	17,983	25.5%	-11.5%
Eicher Motors	39,378	3.5%	-5.8%	10,664	14.2%	-2.2%	10,590	16.9%	6.3%
Escorts Kubota	21,031	-3.7%	-9.4%	2,776	17.7%	-11.2%	2,476	18.0%	-10.7%
Hero MotoCorp	93,668	12.8%	-3.7%	12,833	18.5%	-5.8%	9,587	11.6%	-5.4%
Mahindra	2,41,926	7.2%	-4.4%	31,917	14.1%	-1.5%	19,587	-5.0%	-20.2%
Maruti Suzuki	3,90,070	21.7%	17.1%	48,111	43.6%	23.1%	37,175	41.7%	18.8%
Tata Motors	12,38,526	16.9%	12.0%	1,98,043	26.8%	9.6%	59,149	7.6%	-18.2%
TVS Motor	80,269	21.5%	-2.6%	8,470	24.6%	-8.4%	4,446	27.5%	-14.6%
Apollo Tyres	62,051	-0.7%	-5.9%	11,152	11.7%	-7.7%	4,155	7.2%	-18.8%
Balkrishna Industries	25,685	10.5%	10.9%	5,637	13.9%	-4.0%	3,303	28.1%	6.8%
Bharat Forge	24,014	20.2%	6.1%	6,361	30.4%	-4.1%	3,974	39.3%	0.4%
Bosch Ltd.	43,915	8.1%	4.4%	4,987	-4.5%	-13.8%	4,806	18.6%	4.6%
Endurance Technologies	26,608	19.1%	3.9%	3,314	16.1%	10.8%	1,601	20.2%	5.1%
Exide Industries	42,315	19.4%	10.2%	5,024	36.8%	14.2%	3,049	46.7%	26.9%
SAMIL	2,81,986	25.5%	9.7%	26,569	31.5%	12.1%	9,085	39%	30.4%
Schaeffler India	18,746	4.5%	1.1%	3,241	-6.1%	-4.8%	2,156	-7%	-7.4%
SKF India	11,713	7.0%	7.2%	1,687	1.0%	-2.2%	1,300	6%	-1.7%
Timken India	8,238	2.6%	35.2%	1,571	2.8%	51.5%	1,104	6%	56.3%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

4QFY24 results preview

Near double-digit growth in the automobile sector's domestic volume in FY24 provides comfort, with big market share gains coming for M&M, Bajaj Auto, TVS Motor and Maruti Suzuki, which is impressive. The Mar 2024 quarter double-digit EBITDA growth, we feel, is captured in the valuations, but rising fuel prices and the high commodity cost impact is under-estimated.

Figure 2: Automobile industry's performance in FY24

Sub-Segment	4QFY24	yoy (%)	qoq (%)	FY24	yoy (%)
Medium & Heavy Commercial Vehicles (M&HCV)	1,09,963	-10.8%	19.5%	3,80,787	1.4%
Light Commercial Vehicles (LCV)	1,73,085	7.4%	16.0%	6,15,674	2.0%
Total Commercial Vehicles (CV)	2,83,048	-0.5%	17.3%	9,96,461	1.8%
Cars	3,80,166	-15.0%	10.5%	15,32,671	-12.3%
UV + MPV	7,01,670	23.2%	5.3%	26,21,885	22.7%
Total Passenger Vehicles	10,81,836	6.4%	7.1%	41,54,556	7.0%
3-wheelers	1,59,000	10.5%	-10.4%	6,57,195	43.2%
2-wheelers	44,66,124	25.9%	-5.1%	1,78,52,630	13.9%
Motorcycles	29,10,075	27.0%	-5.9%	1,16,53,237	13.9%
Total Automobile	59,90,008	20.0%	-2.4%	2,36,60,842	12.7%
Tractors	1,82,100	-13.0%	-22.7%	8,74,500	-6.8%

SOURCE: SOCIETY OF INDIAN AUTOMOBILE MANUFACTURERS (SIAM), INCRED RESEARCH

Figure 3: 4QFY24 sales volume performance of OEMs

Company	4QFY24 Sales Volume	YoY%	QoQ%
Ashok Leyland	56,269	-5.7%	19.1%
Bajaj Auto	10,68,576	25.0%	-11.0%
Eicher Motors	2,55,749	4.4%	1.7%
Escorts Kubota	21,253	-14.2%	-18.3%
Hero MotoCorp	13,92,423	9.6%	-4.6%
Mahindra & Mahindra	2,86,924	2.9%	-8.4%
Maruti Suzuki	5,84,031	13.4%	16.5%
Tata Motors (ex-JLR)	2,34,981	3.0%	-3.3%
TVS Motor	10,62,529	22.4%	-3.5%

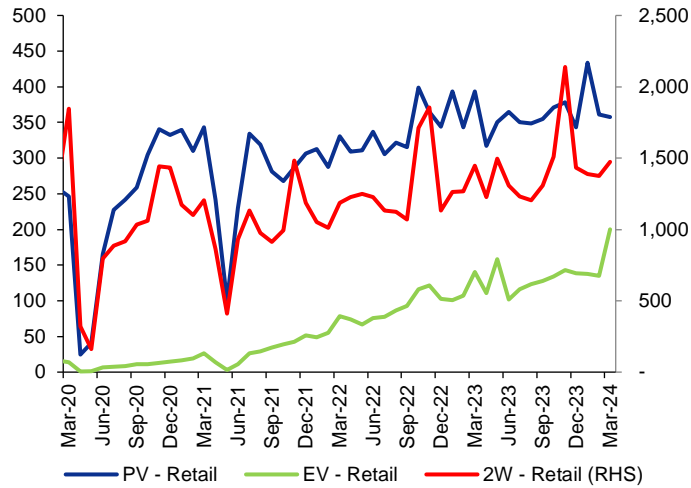
SOURCE: SOCIETY OF INDIAN AUTOMOBILE MANUFACTURERS (SIAM), INCRED RESEARCH

Figure 4: Change in domestic market share of key automobile players

Company	Market share in FY24					Change in market share yoy (bp)				
	Two wheelers	Three wheelers	Passenger vehicles	LCV	M&HCV	Two wheelers	Three wheelers	Passenger vehicles	LCV	M&HCV
Bajaj Auto	12.6%	69.4%				108	8			
Hero Motocorp	30.4%					(254)				
TVS	17.7%	3.8%				110	87			
Honda Motorcycle	25.4%					(32)				
Ashok Leyland				10.8%	30.6%				(23)	20
Tata Motors			12.5%	34.8%	46.0%			(132)	(120)	58
Eicher	4.7%			2.1%	17.5%	(1)			7	125
Mahindra		8.9%	11.1%	41.3%	2.1%		187	182	116	39
Maruti			42.4%	5.5%				99	(81)	
Hyundai			14.8%					18		
Toyota			5.9%					143		
Piaggio		14.4%					(192)			
Others	9.3%	3.5%	13.3%	5.5%	3.8%	70	(88)	(310)	101	(242)
Total	100%	100%	100%	100%	100%					

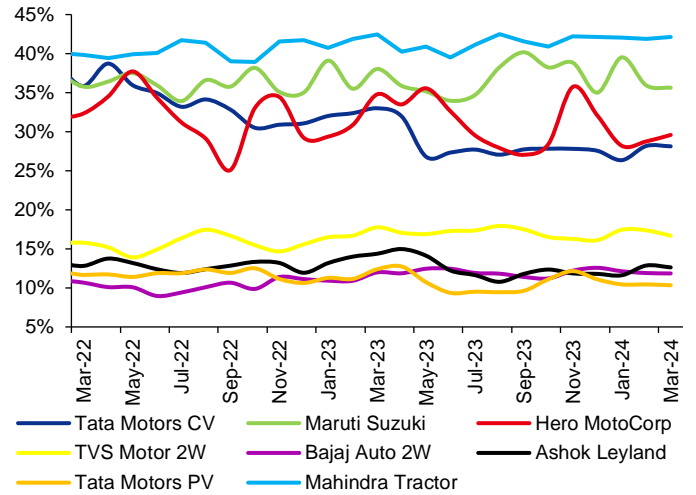
SOURCE: SIAM, INCRED RESEARCH

Figure 5: Retail sales of various vehicle segments



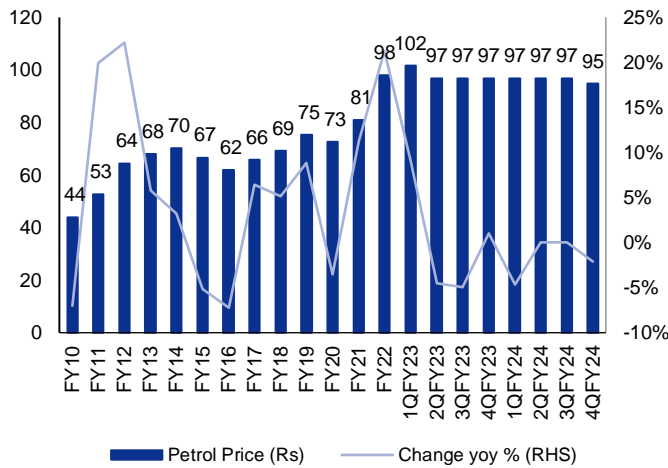
SOURCE: VAHAN, INCRED RESEARCH

Figure 6: Retail market share trend



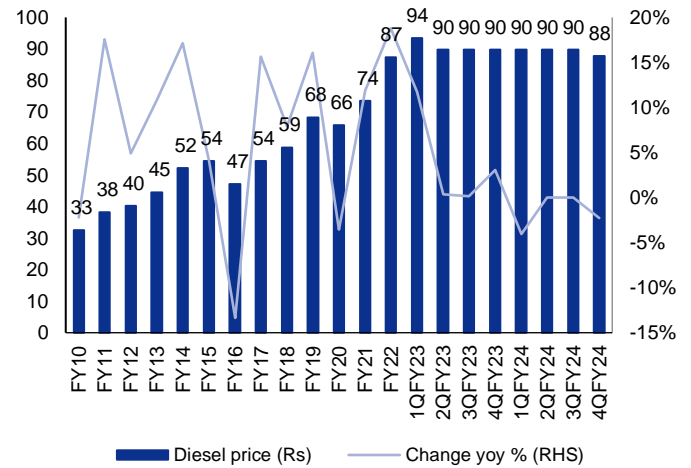
SOURCE: VAHAN, INCRED RESEARCH

Figure 7: Petrol prices cut by 2% by the government



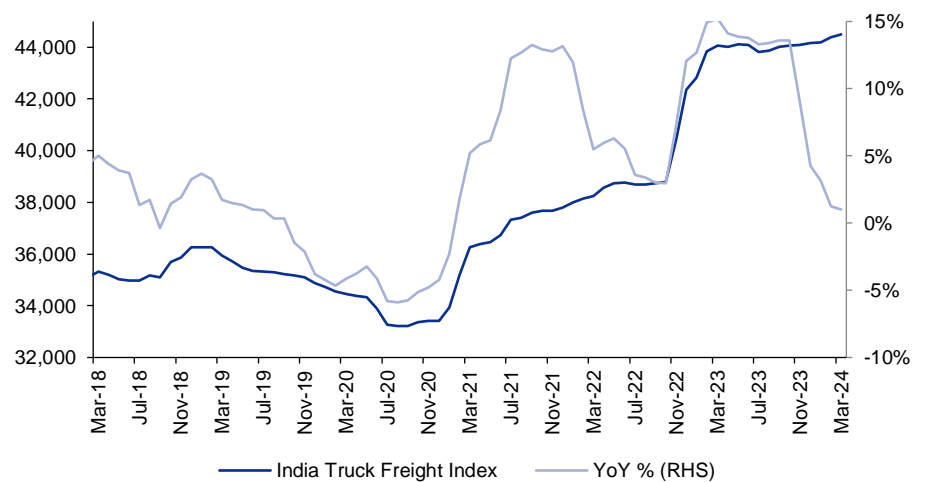
SOURCE: INDIAN OIL CORPORATION (IOC), INCRED RESEARCH

Figure 8: Diesel prices also witnessed a 2% price cut



SOURCE: INDIAN OIL CORPORATION (IOC), INCRED RESEARCH

Figure 9: Truck Freight Index holds on, but the growth rate eases sharply



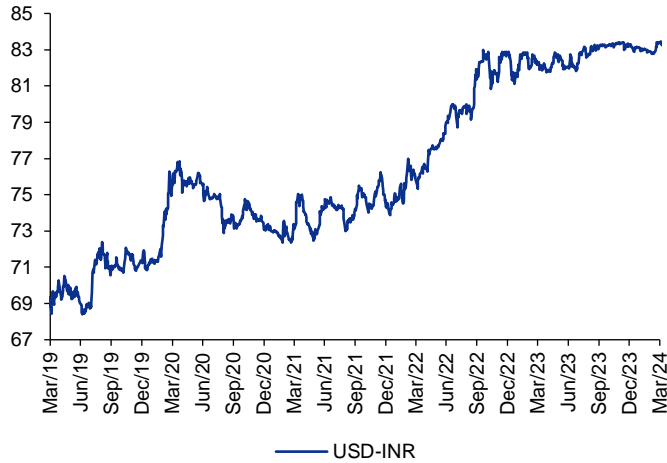
SOURCE: BLOOMBERG, INCRED RESEARCH, COMPANY REPORTS

Figure 10: Currency trend for the Mar 2024 quarter to favour importers

Average Rates	4QFY24	4QFY23	yoy (%)	3QFY24	qoq (%)
USD - INR	83.04	82.26	0.9%	83.27	-0.3%
JPY - INR	0.56	0.62	-10.0%	0.56	-0.6%
EUR - INR	90.19	88.25	2.2%	89.57	0.7%
USD - JPY	148.33	132.36	12.1%	147.76	0.4%
GBP - USD	1.27	1.22	4.3%	1.24	2.1%
GBP - EUR	1.17	1.13	3.1%	1.15	1.2%

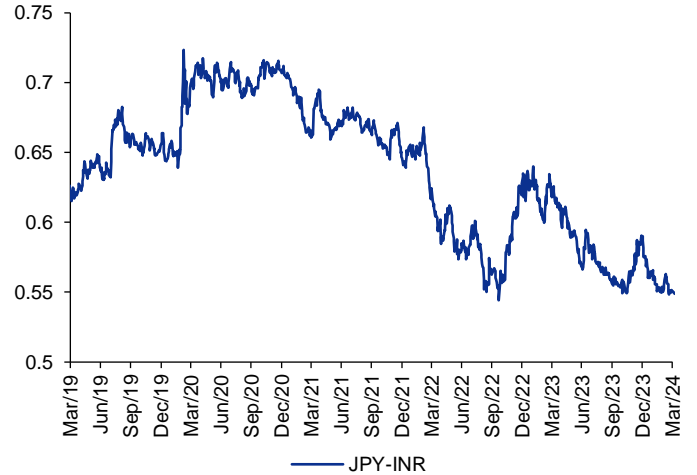
SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 11: USD-INR currency trend is flattish



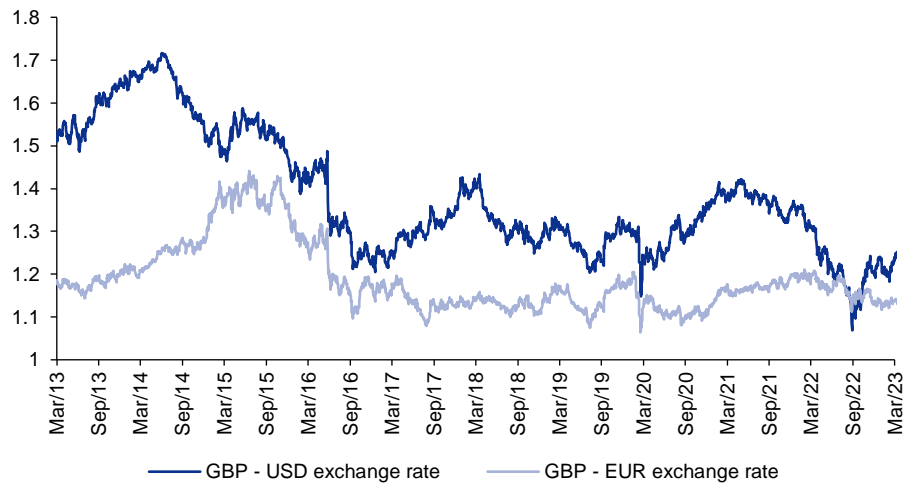
SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 12: JPY-INR currency movement is in a downtrend



SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 13: Cross-currency movement to impact JLR's profitability



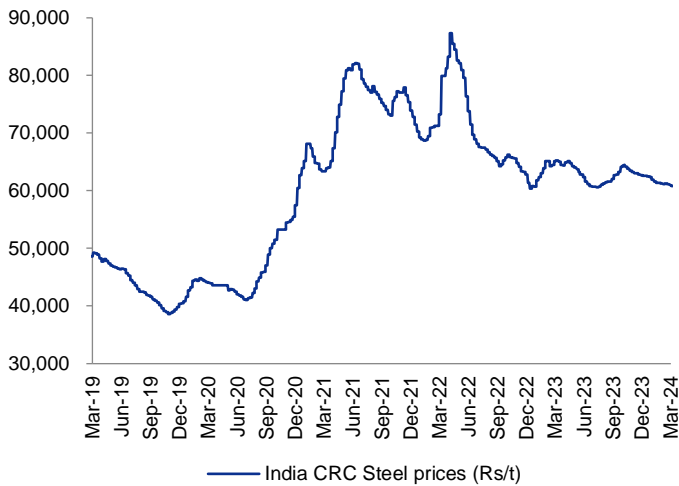
SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 14: Commodity price trend favourable in steel and lead while the others inch up

	4QFY24	4QFY23	YoY (%)	3QFY24	QoQ (%)	31-Mar-24
CRC Steel (Rs/t)	61,156	64,148	-5%	63,210	-3%	61,900
Lead (US\$/t)	2,076	2,137	-3%	2,125	-2%	2,024
Rubber (Rs/kg)	167	143	17%	152	10%	183
Aluminum (US\$/t)	2,241	2,440	-8%	2,226	1%	2,337
Copper (US\$/t)	8,540	8,959	-5%	8,249	4%	8,867
Palladium (US\$/ounce)	977	1,563	-37%	1,087	-10%	1,017
Rhodium (US\$/ounce)	4,568	10,885	-58%	4,488	2%	4,750

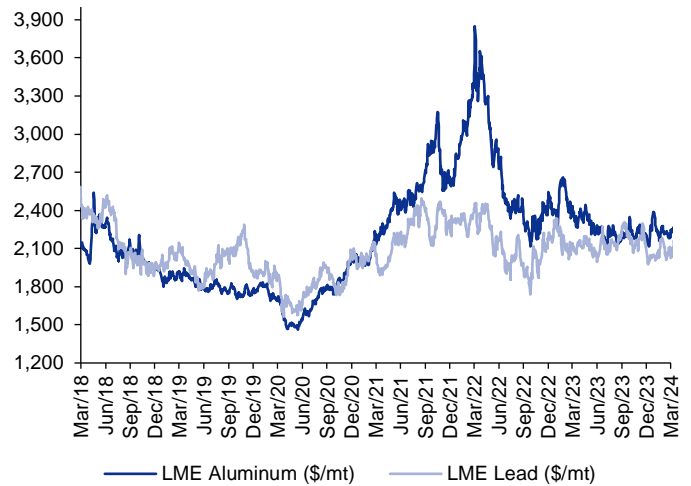
SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 15: Steel prices witness a sequential decline



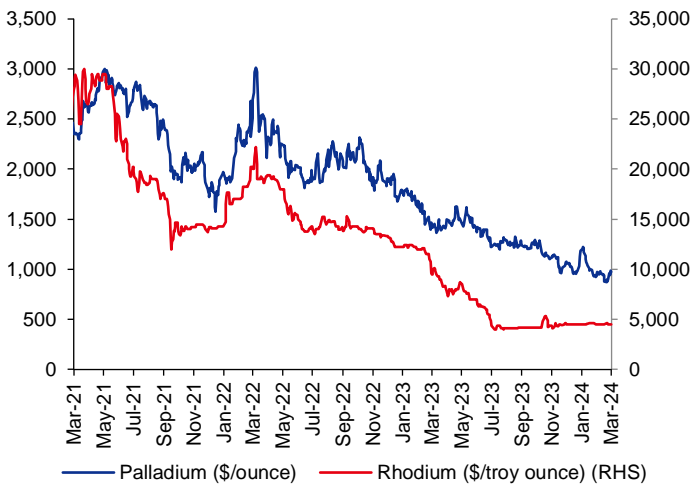
SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 16: Aluminium and lead price trends



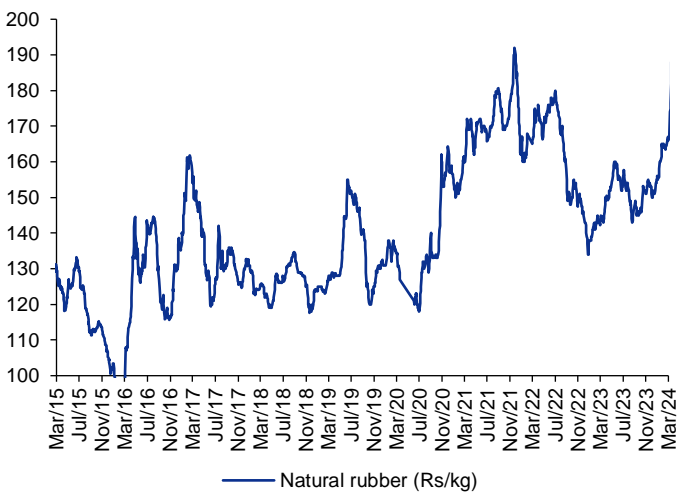
SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 17: Palladium and rhodium prices stabilize



SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 18: Natural rubber prices on the rise



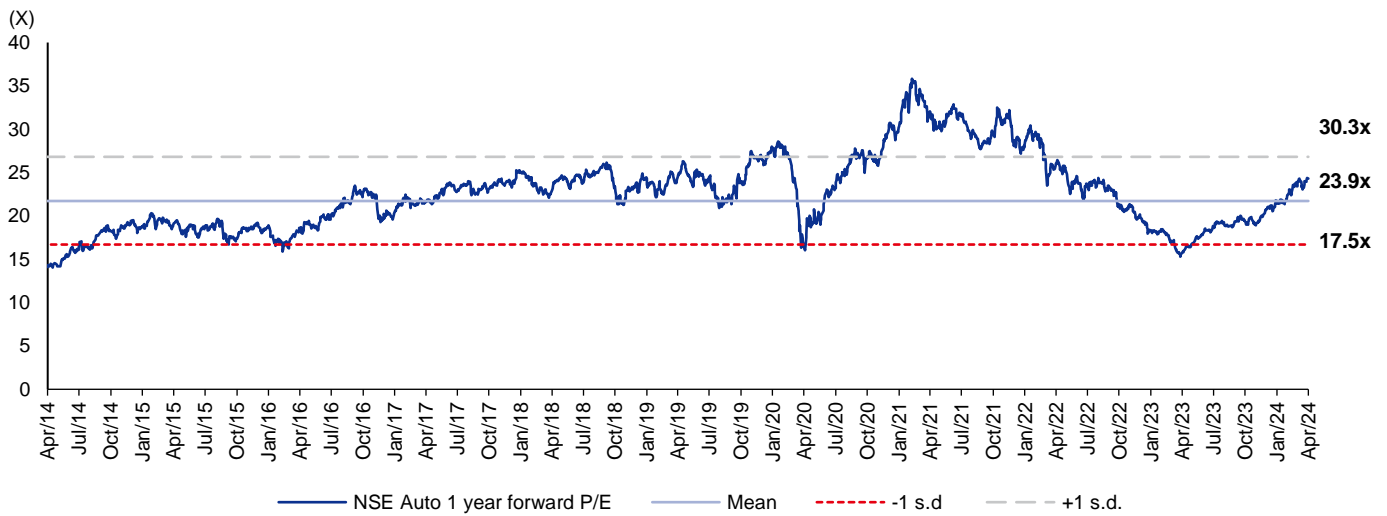
SOURCE: BLOOMBERG, INCRED RESEARCH

Figure 19: 4QFY24F earnings of our coverage universe and their comparison with Bloomberg consensus estimates

4QFY24F (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	1,14,038	14,686	8,596	12.9%	1,10,451	13,917	7,783	12.6%	-3.2	-5.5	-10.4
Bajaj Auto	1,11,450	21,981	18,665	19.7%	1,10,405	20,976	17,983	19.0%	-0.9	-4.8	-3.8
Eicher Motors	42,760	11,486	10,963	26.9%	39,378	10,664	10,590	27.1%	-8.6	-7.7	-3.5
Escorts Kubota	20,812	2,706	2,354	13.0%	21,031	2,776	2,476	13.2%	1.0	2.5	4.9
Hero MotoCorp	93,514	13,164	10,033	14.1%	93,668	12,833	9,587	13.7%	0.2	-2.6	-4.6
Mahindra & Mahindra	2,41,349	30,266	20,563	12.5%	2,41,926	31,917	19,587	13.2%	0.2	5.2	-5.0
Maruti Suzuki	3,82,522	49,146	37,635	12.8%	3,90,070	48,111	37,175	12.3%	1.9	-2.2	-1.2
Tata Motors	11,95,465	1,70,011	70,673	14.2%	12,38,526	1,98,043	69,149	16.0%	3.5	14.2	-19.5
TVS Motor	79,617	8,849	5,348	11.1%	80,269	8,470	4,446	10.6%	0.8	-4.5	-20.3
Apollo Tyres	64,296	11,154	4,563	17.3%	62,051	11,152	4,155	18.0%	-3.6	0.0	-9.8
Balkrishna Industries	24,605	5,908	3,267	24.0%	25,685	5,637	3,303	21.9%	4.2	-4.8	1.1
Bharat Forge	23,039	6,480	3,684	28.1%	24,014	6,361	3,974	26.5%	4.1	-1.9	7.3
Bosch Ltd.	45,712	6,212	4,841	13.6%	43,915	4,987	4,806	11.4%	-4.1	-24.6	-0.7
Endurance Technologies	26,538	3,272	1,651	12.3%	26,608	3,314	1,601	12.5%	0.3	1.3	-3.1
Exide Industries	39,759	4,676	2,689	11.8%	42,315	5,024	3,049	11.9%	6.0	6.9	11.8
SAMIL	2,69,206	25,079	7,215	9.3%	2,81,986	26,569	9,085	9.4%	4.5	5.6	20.6
Schaeffler India	19,251	3,597	2,393	18.7%	18,746	3,241	2,156	17.3%	-2.7	-11.0	-11.0
SKF India	11,238	1,839	1,369	16.4%	11,713	1,687	1,300	14.4%	4.1	-9.0	-5.3
Timken India	7,594	1,223	830	16.1%	8,238	1,571	1,104	19.1%	7.8	22.2	24.9

SOURCE: BLOOMBERG, INCRED RESEARCH, COMPANY REPORTS

Figure 20: Forward P/E valuation inches above 10-year mean



SOURCE: BLOOMBERG, INCRED RESEARCH, COMPANY REPORTS

Figure 21: 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	12,420	12,554	ADD	39,03,816	47,020	422.6	485.6	29.4	25.6	5.7	4.3	20.8	1.2%	1.1%	20.5%
Tata Motors	1,023	639	REDUCE	37,60,178	45,290	49.2	62.8	20.8	16.3	6.0	4.5	6.2	0.4%	-37.5%	33.6%
Hero MotoCorp	4,471	3,321	REDUCE	8,93,266	10,759	196.9	221.7	22.7	20.2	5.3	4.9	15.1	4.0%	-25.7%	23.4%
Mahindra & Mahindra	2,080	1,765	HOLD	23,09,888	27,822	91.4	96.0	22.8	21.7	4.5	3.9	11.4	1.1%	-15.2%	21.4%
Escorts Kubota	3,027	2,071	REDUCE	3,38,419	4,076	94.4	99.4	32.1	30.4	3.6	3.3	27.8	0.4%	-31.6%	11.9%
Bajaj Auto	9,083	8,090	ADD	25,34,158	30,523	259.0	301.1	35.1	30.2	9.0	8.2	26.8	1.9%	-10.9%	27.0%
Ashok Leyland	178	208	ADD	5,21,345	6,279	8.0	9.5	22.3	18.6	5.4	4.7	12.2	2.3%	17.1%	25.7%
Eicher Motors	4,363	3,227	REDUCE	11,92,490	14,363	141.7	154.1	30.8	28.3	7.6	6.6	25.0	1.1%	-26.0%	26.9%
TVS Motor	2,069	1,485	REDUCE	9,83,077	11,841	38.3	40.9	54.0	50.6	12.9	10.8	29.7	0.4%	-28.2%	27.2%
Endurance Technologies	1,894	2,375	ADD	2,66,416	3,209	44.8	65.3	42.3	29.0	5.4	4.7	21.0	0.5%	25.4%	13.5%
Balkrishna Industries	2,400	2,160	REDUCE	4,63,901	5,587	66.6	80.3	36.0	29.9	5.5	4.9	22.3	0.8%	-10.0%	16.0%
Exide Industries	385	294	ADD	3,27,633	3,946	13.4	15.6	28.8	24.8	2.8	2.7	17.2	1.8%	-23.7%	9.9%
Bharat Forge	1,175	1,366	ADD	5,46,929	6,588	21.2	27.4	55.3	42.9	5.9	5.1	22.9	0.9%	16.3%	12.4%
Apollo Tyres	482	412	REDUCE	3,06,118	3,687	28.7	29.2	16.8	16.5	2.2	2.0	7.4	1.7%	-14.5%	13.5%
Bosch Ltd	29,925	20,232	REDUCE	8,82,482	10,629	529.8	596.2	56.5	50.2	7.2	6.9	39.5	1.2%	-32.4%	13.4%
SAMIL	121	133	ADD	8,22,994	9,913	3.9	5.2	31.1	23.3	3.4	3.1	10.5	0.8%	9.5%	11.4%
Schaeffler India	3,288	3,395	ADD	32,877	396	64.1	72.8	51.3	45.1	9.7	8.7	26.9	0.0%	3.3%	18.3%
Timken India	2,944	2,519	REDUCE	29,437	355	60.4	75.6	48.7	38.9	7.8	6.6	24.8	0.0%	-14.4%	18.3%
SKF India	4,708	5,302	REDUCE	47,080	567	134.0	153.3	35.1	30.7	8.0	6.5	20.3	0.0%	12.6%	21.1%

Note: Valuation multiple of M&M is adjusted for subsidiaries' value of Rs638/share

SOURCE: BLOOMBERG, INCRED RESEARCH, COMPANY REPORTS

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