

India

June 03, 2024 - 2:20 PM

Neutral (previously *Overweight*)

Highlighted Companies

Ashok Leyland

ADD, TP Rs260, Rs224 close

The better-than-expected recovery in the CV demand cycle from stable government policy and distribution fixes driving market share to aid superior growth.

Eicher Motors Ltd

REDUCE, TP Rs4015, Rs4733 close

Slow volume recovery in the domestic market and exports disappoints. Rising competition to challenge peak EBITDA margin in the coming quarters.

Mahindra & Mahindra

HOLD, TP Rs2455, Rs2506 close

New compact SUV bookings and tractor demand recovery seems to be factored in the current +2SD P/E. Maintain our HOLD rating on the stock.

Summary Valuation Metrics

P/E (x)	Mar24-A	Mar25-F	Mar26-F
Ashok Leyland	25.12	21.35	18.61
Eicher Motors Ltd	32.38	30.71	28.39
Mahindra & Mahindra	27.19	24.73	22.9

P/BV (x)	Mar24-A	Mar25-F	Mar26-F
Ashok Leyland	7.46	6.45	5.57
Eicher Motors Ltd	7.18	6.94	6.03
Mahindra & Mahindra	5.32	4.56	3.97

Dividend Yield	Mar24-A	Mar25-F	Mar26-F
Ashok Leyland	2.21%	2.59%	2.9%
Eicher Motors Ltd	1.08%	1.16%	1.27%
Mahindra & Mahindra	1.02%	0.91%	1.08%

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Autos

May 2024 auto sales volume performance

- May 2024 dispatches impressive in case of tractors while weak for PVs. Mixed trend in 2W & CVs. Retail sales saw a flat-to-marginal dip across segments.
- The earlier-than-expected and above-normal rainfall prediction seems to be driving inventory build-up in tractors and 2Ws in anticipation of good demand.
- Strong Nifty Auto index performance makes P/E above mean level while volume growth turns selective & commodity costs rise. Retain Neutral rating.

May 2024 sales volume highlights

- **The YoY growth leaders** were TVS Motor Company (+25%), Bajaj Auto (+19%), Mahindra & Mahindra or M&M (+14%) and Ashok Leyland (+12%). The YoY laggards were Eicher Motors (-7%), Escorts Kubota (-6%), Hero MotoCorp (-4%) and Maruti Suzuki (-2%).
- **The MoM growth leaders** were Escorts Kubota (+15%), Bajaj Auto (+11%) and TVS Motor Company (+8%) and Maruti Suzuki (+4), Ashok Leyland (+3) and M&M (+1). MoM laggards were Eicher Motors (-11%), Hero MotoCorp (-7%) and Tata Motors (-1%).
- **Beat vs. our expectations:** Ashok Leyland (+9%), M&M (+7%), Bajaj Auto (+6%), Escorts Kubota (+5%) and TVS Motor Company (+3%).
- **Miss vs. expectations:** Maruti Suzuki (-5%), Tata Motors (-5%)& Hero MotoCorp (-4%).
- **Vahan retail sales** trend was muted in May 2024, with just a 2% yoy growth in 2Ws and a 3% yoy dip in cars. On MoM basis, weakness was seen in both 2Ws (-7%) and cars (-5%). Electric vehicle or EV volume saw a growth of 10% MoM on a low base as the previous month was impacted due to FAME subsidy withdrawal, but still remains 22% down yoy.

Neutral sector rating for selective volume growth

- We maintain the previous month's downgrade of the sector's rating to Neutral, as a sharp run-up in the NSE auto index raises forward P/E valuation to just above the 10-year mean level while volume growth turns selective. We recently upgraded Hero MotoCorp's rating to HOLD (from REDUCE) for rural demand recovery play while the valuation concerns led us to downgrade Bajaj Auto's rating to HOLD (from ADD).
- Our order of preference is Maruti Suzuki and Ashok Leyland, with an ADD rating. We reiterate REDUCE rating on Tata Motors and TVS Motor, as global operation challenges overrule domestic recovery benefit at current rich valuations. We have a HOLD rating on Mahindra & Mahindra (M&M) and a REDUCE rating on Escorts Kubota in the tractor segment. In 2W, we prefer Hero MotoCorp and Bajaj Auto over Eicher Motors and TVS Motor.
- In the auto ancillary segment, we have an ADD rating on Bharat Forge, Endurance, Technologies, SAMIL and Balkrishna Industries while a REDUCE rating on Bosch, Apollo Tyres and Exide Industries.

Figure 1: Monthly automobile wholesale dispatches

Company	May-24	YoY %	MoM %	vs forecast
Maruti Suzuki	1,74,551	(2.0)	3.8	(4.6)
Mahindra & Mahindra	1,08,791	13.9	1.2	6.6
Tata Motors	76,766	2.4	(1.0)	(5.2)
Bajaj Auto	3,88,256	18.9	10.7	5.8
Eicher Motors	77,911	(7.0)	(10.7)	(1.1)
Hero MotoCorp	4,98,123	(4.1)	(6.6)	(4.2)
TVS Motor	3,83,615	25.3	8.2	3.3
Ashok Leyland	14,682	11.8	2.9	8.8
Escorts Kubota	8,612	(6.1)	14.6	5.0

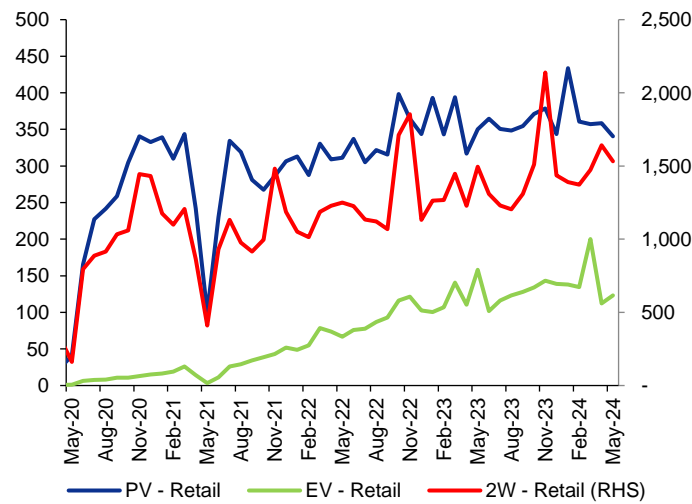
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Company-wise monthly wholesale automobile dispatches

Company	May-24	YoY %	MoM %	Apr 24-May 24	YoY %	vs forecast
Maruti Suzuki						
Domestic	1,57,184	3.7	7.7	3,03,113	2.7	1.4
Exports	17,367	(34.4)	(21.6)	39,527	(9.0)	(38.0)
Grand Total	1,74,551	(2.0)	3.8	3,42,640	1.2	(4.6)
Mahindra & Mahindra						
Utility Vehicles	43,218	31.4	5.4	84,226	24.6	(1.8)
Pick-up, Gio & Maxximo	16,937	(8.7)	(11.2)	36,001	(4.3)	(19.3)
3-Wheelers	5,967	2.0	8.4	11,471	0.6	(10.9)
Trucks & Buses	2,889	90.3	(4.9)	5,927	122.2	3.2
Tractors	37,109	8.7	0.2	74,148	5.1	46.7
Auto Exports	2,671	2.1	43.8	4,528	2.2	16.1
Grand Total	1,08,791	13.9	1.2	2,16,301	11.4	6.6
Tata Motors						
CVs	29,691	2.4	0.5	59,229	15.1	(1.0)
PVs	47,075	2.4	(1.9)	95,058	2.1	(7.7)
Grand Total	76,766	2.4	(1.0)	1,54,287	6.7	(5.2)
Bajaj Auto						
Motorcycles	3,41,789	20.7	14.4	35,98,824	4.5	8.5
3-Wheelers	46,467	7.3	(10.7)	6,23,010	28.5	(10.6)
Grand Total	3,88,256	18.9	10.7	42,21,834	7.5	5.8
Eicher Motors						
Royal Enfield	71,010	(8.3)	(13.3)	1,63,870	8.8	-
VECV	6,901	9.7	28.3	12,278	(4.5)	(11.5)
Grand Total	77,911	(7.0)	(10.7)	1,76,148	7.8	(1.1)
Hero MotoCorp						
Grand Total	4,98,123	(4.1)	(6.6)	10,31,708	12.7	(4.2)
TVS Motor						
Domestic 2W	3,01,449	29.4	15.7	31,69,217	22.0	7.7
Export 2W	73,143	18.3	(12.8)	9,10,344	(0.5)	(6.5)
3W	9,023	(21.1)	(11.1)	1,45,671	(13.9)	(31.4)
Grand Total	3,83,615	25.3	8.2	42,25,232	14.8	3.3
Ashok Leyland						
MHCVs	9,243	11.8	1.3	18,366	13.3	8.7
LCVs	5,439	11.8	5.7	10,587	6.9	8.8
Grand Total	14,682	11.8	2.9	28,953	10.9	8.8
Escorts Kubota						
Domestic	8,232	(5.4)	14.8	15,400	(3.5)	6.9
Exports	380	(17.9)	9.5	727	(6.3)	(24.0)
Grand Total	8,612	(6.1)	14.6	16,127	(3.6)	5.0

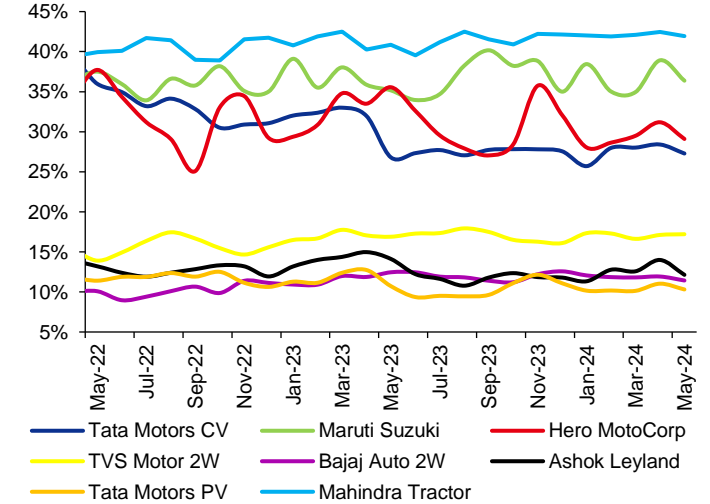
SOURCE: INCRED RESEARCH, COMPANY REPORTS

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



SOURCE: INCRED RESEARCH, VAHAN.COM

Figure 4: Domestic retail segment market share of OEMs



SOURCE: INCRED RESEARCH, VAHAN.COM

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