

India

September 10, 2024 - 3:50 PM

Neutral (no change)

Highlighted Companies

Mahindra & Mahindra

HOLD, TP Rs2455, Rs2709 close

New product momentum in SUV seems reaching peak, as E-SUV may be gradual to accept. The spike in stock price recent month has pushed P/E valuation to +3SD above the 10-year mean level.

Maruti Suzuki

ADD, TP Rs15541, Rs12146 close

The product mix improving in the case of CNG vehicles and Ertiga's capacity increase to drive ASP and margin in the short term. The EV launch in CY25F to ease technology concerns for the company.

Tata Motors

REDUCE, TP Rs831, Rs1039 close

Supply challenges at JLR and demand weakness in India's car market to impact the car division's performance. The recent consensus EPS cut is overlooked by rich P/BV valuation and stock price rally.

Summary Valuation Metrics

P/E (x)	Mar24-F	Mar25-F	Mar26-F
Mahindra & Mahindra	29.39	26.73	24.75
Maruti Suzuki	28.91	23.46	21.47
Tata Motors	12.48	17.21	14.15

P/BV (x)	Mar24-F	Mar25-F	Mar26-F
Mahindra & Mahindra	5.75	4.93	4.29
Maruti Suzuki	4.55	3.53	3.19
Tata Motors	4.69	3.76	3.04

Dividend Yield	Mar24-F	Mar25-F	Mar26-F
Mahindra & Mahindra	0.95%	0.84%	1%
Maruti Suzuki	1.03%	1.32%	1.56%
Tata Motors	0.38%	0.58%	0.77%

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Autos

Car industry expert roadshow highlights

- The expert feels dealer inventory problem is less pronounced for top 2 OEMs but worsened in lower ranks. Bunching of festivals in Sep-Oct caps benefits.
- New product wins for Hyundai have been weak in last few years, which needs to be addressed soon to fill new capacity. An agile management is its strength.
- Maruti Suzuki's precision marketing and hybrid vehicle focus will help sustain its leadership status. However, the future-ready tech gap is an area of concern.

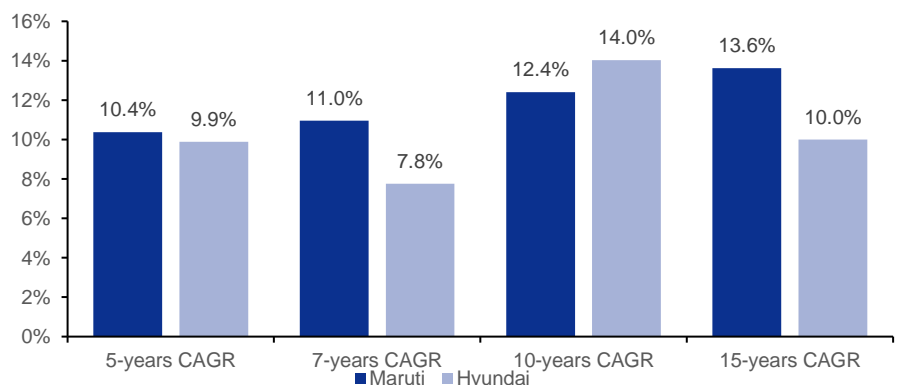
Industry outlook

- We hosted a car industry expert with two decades of experience spanning across Maruti Suzuki, Hyundai and Nissan vehicles recently. The key highlights are detailed below.
- The expert feels that passenger vehicle (PV) industry is likely to post a mere 3-4% yoy growth in FY25F. In 1HFY25F, the industry will witness growth led by the festive season and new launches, while he expects a dip in 2HFY25F. Very few OEMs will show volume growth in FY25F while many may post negative growth due to the high level of inventory and weak demand. Overall, many OEMs to witness a decline in sales.
- In the medium- to long-term, he expects the PV industry to record an 8-10% CAGR in demand driven by the double-income profile of customers, preference for personal mobility, improving per capita income, better vehicle financing and new launches.
- The compact car segment to evolve into small A&B size SUVs to appeal to customers.
- The normal inventory level of the industry should be 30 days, but it peaks to ~45 days pre-festive season. The current inventory level, at 75 days of sales, is high while a few OEMs (Maruti Suzuki and Mahindra & Mahindra or M&M) kept their inventory level at 40 days of sales, but in case of Tata Motors and others it is very high.
- Hybrid models, with government policy support, have already achieved a 2% penetration level in PVs while electric vehicles or EVs, with six years of incentives, are at just 2.4%. The expert feels that hybrid is transactional tech and its acceptance is quick while EV, being transformational tech, needs ecosystem development & government support. He expects the penetration of hybrids to rise to 8% by FY30F but in case of EVs it's just 6%.

Hyundai Motor India and Maruti Suzuki

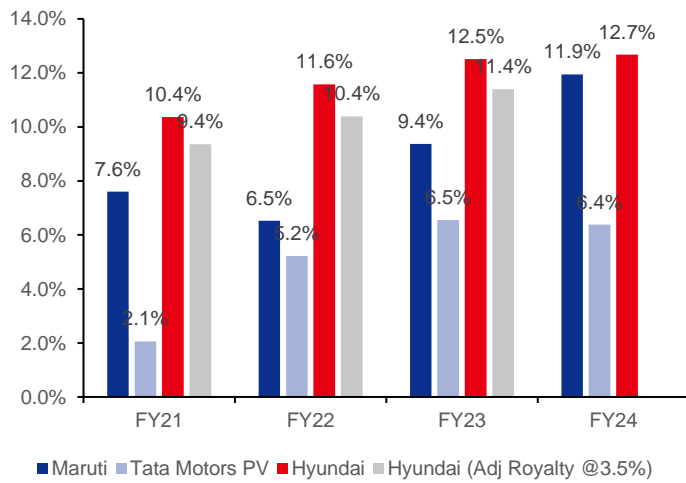
- Hyundai's management is agile and displays its quick-to-market stance. The company can adopt new technology faster and develop a new variant in two months while it takes a year for Japanese OEMs. However, Hyundai's cars launched recently failed to garner a good response vs. competitors like M&M's XUV700 and Tata Motors' Punch.
- Maruti Suzuki has expertise in precision marketing and a strong supply chain but no future-ready technology of its own. It is likely to launch small hybrid cars with the help of Toyota. Hyundai Motor India, deriving the strength from its parent's European hybrid cars, can launch them here by Mar 2025F.
- Maruti Suzuki has launched a dream car series to gain its lost market share in the hatchback category. The decisions on its investments and launches are taken in Japan.

Figure 1: Compounded sales growth



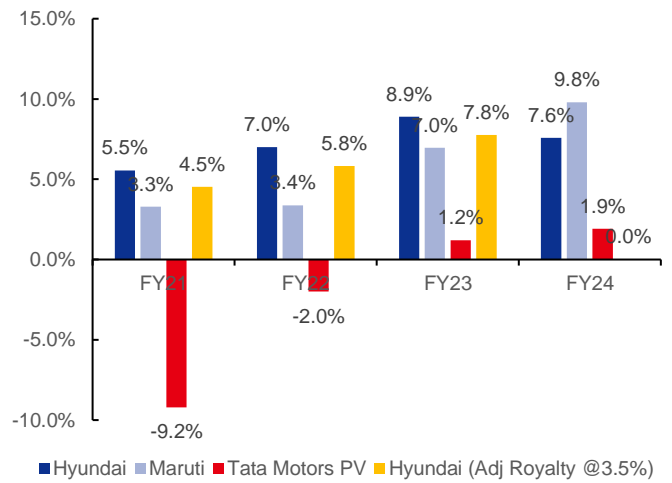
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: EBITDA margin trend for car OEMs



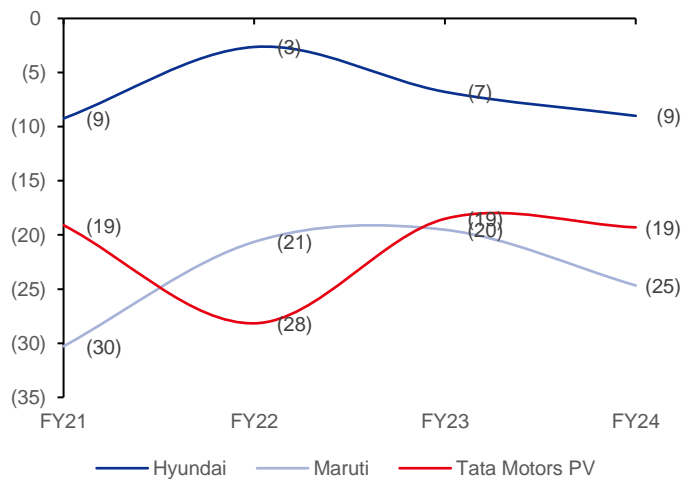
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: EBIT margin trend for car OEMs



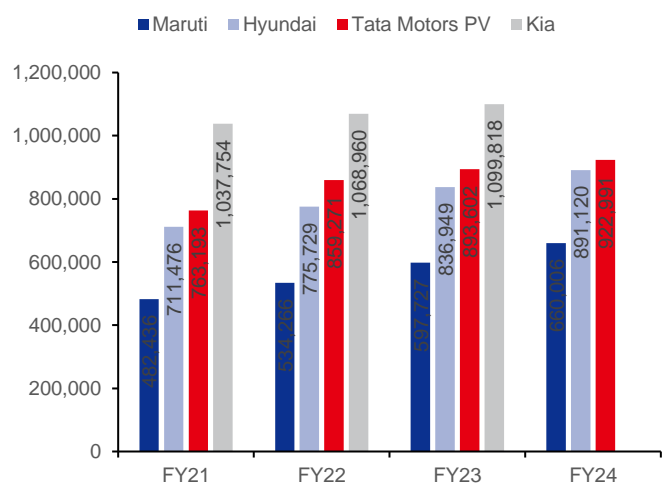
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Net core working capital days for car OEMs



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Average selling price or ASP trend for car OEMs



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Hyundai Motor Company set to launch 21 models by 2030F

casper
Affordable EV



HYUNDAI
Mass-market EV
Compact - Large



Luxury EV
Total 6 models / lineup



High-performance EV
Hyundai N (vision 74)
/ Genesis Magma



SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.