

India

November 04, 2024 - 1:40 PM

Neutral (no change)

Highlighted Companies

Hero MotoCorp

ADD, TP Rs5812, Rs5021 close

Rural demand recovery due to good monsoons and government policies, aided by new vehicle launches, to drive market share recovery that was witnessed during the Diwali festive season.

Maruti Suzuki

ADD, TP Rs14593, Rs11110 close

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

Tata Motors

REDUCE, TP Rs831, Rs843 close

Supply challenges at JLR and demand weakness/ inventory challenge in Indian market to impact the performance. Recent consensus EPS cut overlooked by rich P/BV valuation.

Summary Valuation Metrics

P/E (x)	Mar24-A	Mar25-F	Mar26-F
Hero MotoCorp	25.73	20.85	19.08
Maruti Suzuki	27.33	23.16	20.01
Tata Motors	10.14	13.98	11.49

P/BV (x)	Mar24-A	Mar25-F	Mar26-F
Hero MotoCorp	5.58	5.12	4.72
Maruti Suzuki	4.16	3.27	2.95
Tata Motors	3.81	3.06	2.47

Dividend Yield	Mar24-A	Mar25-F	Mar26-F
Hero MotoCorp	2.79%	3.19%	3.59%
Maruti Suzuki	1.13%	1.44%	1.71%
Tata Motors	0.47%	0.71%	0.95%

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Autos

Oct 2024 auto sales volume performance

- Oct 2024 dispatches saw good growth in tractor & 2W segments, beating our estimates in the case of M&M, Escorts Kubota, Eicher Kubota & TVS Motor.
- Management commentary indicates an improvement in festive demand in the second half of Oct 2024, with the base effect normalization likely in Nov 2024F.
- The recent fall in the Nifty-Auto index has been sharp, leading to underperformance vs. Nifty-50, in line with our sector downgrade in May 2024.

Oct 2024 sales volume highlights

- **The YoY growth leaders** were Eicher Motors (+28%), Mahindra & Mahindra or M&M (+24%), Escorts Kubota (+20%), Hero MotoCorp (+18%), TVS Motor (+13%) Maruti Suzuki (+4%) & Hyundai Motors (2%). The YoY laggard was Ashok Leyland (-9%).
- **The MoM growth leaders** were Escorts Kubota (+46%), Eicher Motors (+24%), M&M (+23%) and Tata Motors (+16%). The MoM laggard was Ashok Leyland (-11%).
- **Beat vs. our expectations:** Escorts Kubota (+65%), M&M (+20%), TVS Motor (+13%), Eicher Motors (+11%) & Hyundai Motors (+3%).
- **Miss vs. expectations:** Ashok Leyland (-26%), Tata Motors (-13%), Bajaj Auto (-4%), Maruti Suzuki (-3%) & Hero MotoCorp (-3%).
- **Vahan retail sales:** Oct 2024 retail sales indicate a yoy growth across the board, benefitting from both big festivals celebrated in Oct 2024 as against spread over Oct-Nov last year. The right comparison will be like-to-like festival day sales or combined sales of the Oct-Nov period. In Oct 2024, electric vehicles or EVs (+62%) saw fastest yoy growth in the pack followed by cars (+38%) & 2Ws (+37%) while tractors (+4%) were flattish. Maruti & Hero in cars and 2W, respectively, gained retail market share recently.

Retain Neutral sector rating as stock prices correct

- Management commentary shows festivals began on a low note with Dusshera but picked up momentum to end on a high note with Diwali. Nifty auto index's correction in the last one month has been steep at 13%, leading to underperformance vs. Nifty-50 for the last 3 months/6 months, in line with sector rating downgrade to Neutral in May 2024.
- We maintain our Neutral rating on the sector, as forward P/E valuation has slipped to near -1SD of the 10-year mean. Demand revival is expected from the festive/marriage seasons and the likely interest rate cut by the Reserve Bank of India soon. CV demand recovery awaits the revival in government's spending on infrastructure in 2HFY25F.
- We remain selective on the sector as volume growth is selective. Our order of preference is Maruti Suzuki, Hero MotoCorp & Ashok Leyland, with an ADD rating. We retain our REDUCE rating on Tata Motors and TVS Motor as the weakness in their sales volume is not captured by their rich valuations. We have a HOLD rating on Bajaj Auto and M&M. We have a REDUCE rating on Escorts Kubota in the tractor segment as the recovery in tractor demand is gradual, & also on Eicher Motors due to weak premium bike demand.
- In 2Ws, we prefer Hero MotoCorp & Bajaj Auto over Eicher Motors & TVS Motor. Hero's market share recovery can sustain with a revival in marriage season/rural demand.

Figure 1: Monthly automobile wholesale dispatches

Company	Oct-24	YoY %	MoM %	vs forecast
Maruti Suzuki	2,06,434	3.6	11.8	(3.1)
Hyundai Motors	70,078	2.0	9.2	3.1
Mahindra & Mahindra	1,62,101	23.6	22.7	20.3
Tata Motors	88,037	(0.4)	15.8	(12.8)
Bajaj Auto	4,58,707	0.7	1.4	(4.4)
Eicher Motors	1,17,686	28.0	24.4	11.2
Hero MotoCorp	6,79,091	18.1	6.6	(3.0)
TVS Motor Company	4,89,015	12.5	1.4	12.6
Ashok Leyland	15,310	(9.2)	(11.2)	(26.0)
Escorts Kubota	18,110	19.8	46.3	65.4

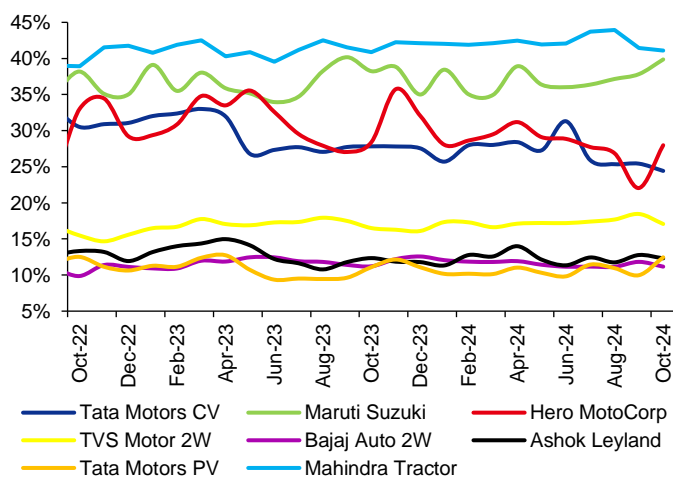
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Company-wise monthly wholesale automobile dispatches

	Oct-24	YoY %	MoM %	Apr -Oct 24	YoY %	vs forecast
Maruti Suzuki						
Domestic	1,73,266	(2.3)	10.4	10,88,408	(0.6)	(8.8)
Exports	33,168	51.1	19.6	1,81,444	17.4	44.2
Grand Total	2,06,434	3.6	11.8	12,69,852	1.6	(3.1)
Hyundai Motors						
Domestic	55,568	0.8	8.7	3,54,662	(2.1)	1.0
Exports	14,510	6.7	10.8	99,410	(0.3)	11.6
Grand Total	70,078	2.0	9.2	4,54,072	(1.7)	3.1
Mahindra & Mahindra						
Utility Vehicles	54,504	24.7	6.7	3,14,714	21.7	13.6
Pick-up, Gio & Maxximo	27,828	12.7	36.2	1,35,776	(5.9)	(7.2)
3-Wheelers	9,826	4.5	(2.2)	50,444	3.7	(1.7)
Trucks & Buses	984	(4.6)	(69.9)	20,069	81.8	(70.2)
Tractors	65,453	29.7	47.9	2,80,302	9.7	58.9
Auto Exports	3,506	89.1	15.8	18,233	12.8	59.4
Grand Total	1,62,101	23.6	22.7	8,19,538	11.6	20.3
Tata Motors						
CVs	34,259	(0.2)	14.1	2,09,749	(6.4)	(20.3)
PVs	53,778	(0.6)	16.9	3,17,858	(3.1)	(7.3)
Grand Total	88,037	(0.4)	15.8	5,27,607	(4.5)	(12.8)
Bajaj Auto						
Motorcycles	3,93,372	0.2	2.6	23,05,497	8.9	(4.1)
3-Wheelers	65,335	3.6	(5.4)	4,04,770	8.4	(6.7)
Grand Total	4,58,707	0.7	1.4	27,10,267	8.8	(4.4)
Eicher Motors						
Royal Enfield	1,10,574	31.0	27.1	5,64,467	2.9	13.4
VECV	7,112	(5.0)	(6.5)	47,588	2.1	(14.3)
Grand Total	1,17,686	28.0	24.4	6,12,055	2.9	11.2
Hero MotoCorp						
Grand Total	6,79,091	18.1	6.6	37,33,931	11.7	(3.0)
TVS Motor						
Domestic 2W	3,90,489	13.2	5.8	21,04,299	12.5	14.2
Export 2W	87,670	15.9	(14.6)	5,93,843	11.2	12.0
3W	10,856	(22.3)	1.4	81,717	(10.9)	(22.5)
Grand Total	4,89,015	12.5	1.4	27,79,859	11.3	12.6
Ashok Leyland						
MHCVs	9,408	(7.6)	(15.1)	65,473	(4.3)	(23.5)
LCVs	5,902	(11.6)	(4.1)	39,354	(0.6)	(29.7)
Grand Total	15,310	(9.2)	(11.2)	1,04,827	(3.0)	(26.0)
Escorts Kubota						
Domestic	17,839	22.6	48.8	65,134	6.0	69.9
Exports	271	(51.9)	(31.4)	2,459	(29.1)	(39.8)
Grand Total	18,110	19.8	46.3	67,593	4.1	65.4

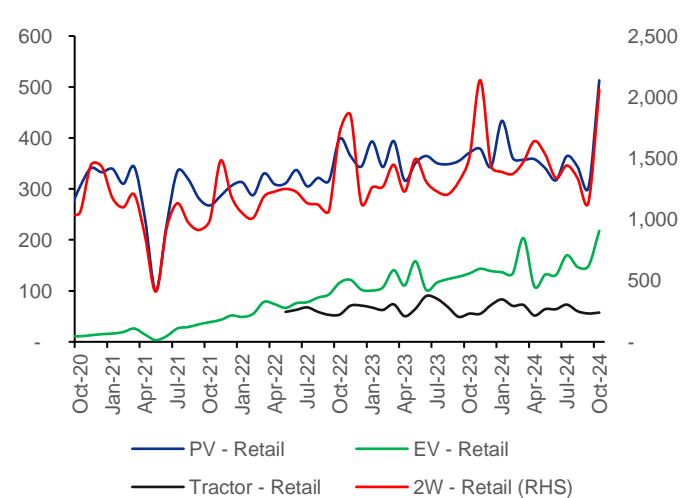
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Domestic retail segment OEMs' market share trend



SOURCE: VAHAN, INCRED RESEARCH

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



SOURCE: VAHAN, INCRED RESEARCH

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- 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.

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