

India

April 09, 2022 - 6:40 PM

Overweight (no change)

Highlighted Companies
Bajaj Auto
ADD, TP Rs4060, Rs3810 close

New EV launch plan for domestic market and low EV threat to its Africa exports, makes it our preferred two-wheeler play.

Exide Industries Ltd
ADD, TP Rs214, Rs162 close

Initial lead of Tata cars in EV space is impressive, but rich P/BV valuation and the risk of competition in domestic and global luxury car markets are areas of concern.

Tata Motors
REDUCE, TP Rs371, Rs452 close

Recent SVOLT technology tie-up to produce li-ion battery cells, coupled with battery assembly capacity in a technical collaboration with Leclanche, positions the company to capture EV battery growth. Attractive valuation and a cash-rich balance sheet led to our Add rating on the stock.

Summary Valuation Metrics

P/E (x)	Mar22-F	Mar23-F	Mar24-F
Bajaj Auto	23.35	19.71	17.1
Exide Industries Ltd	16.99	13.25	11.84
Tata Motors	-35.79	32.79	17.14

P/BV (x)	Mar22-F	Mar23-F	Mar24-F
Bajaj Auto	4.33	4.27	4.16
Exide Industries Ltd	1.89	1.76	1.64
Tata Motors	3.43	3.12	2.66

Dividend Yield	Mar22-F	Mar23-F	Mar24-F
Bajaj Auto	4.07%	4.72%	5.25%
Exide Industries Ltd	3.09%	3.7%	4.32%
Tata Motors	0%	0.11%	0.31%

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Auto & Parts - Overall

EV battery expert meeting highlights

- Expert feels Ola winning big capacity with a large subsidy (US\$20 per Kwh) will be key driver for electric two-wheeler or E2W penetration from 2024F.
- For cars, Hyundai ACC PLI win will help procure local reliable supplies, while Reliance to drive ESS (Energy Storage System) penetration through this win.
- Exide continuing to build capacity, despite losing ACC PLI bid with lowest subsidy request, is the only hope left for mid-size E2W & E3W auto-makers.

The ACC PLI analysis

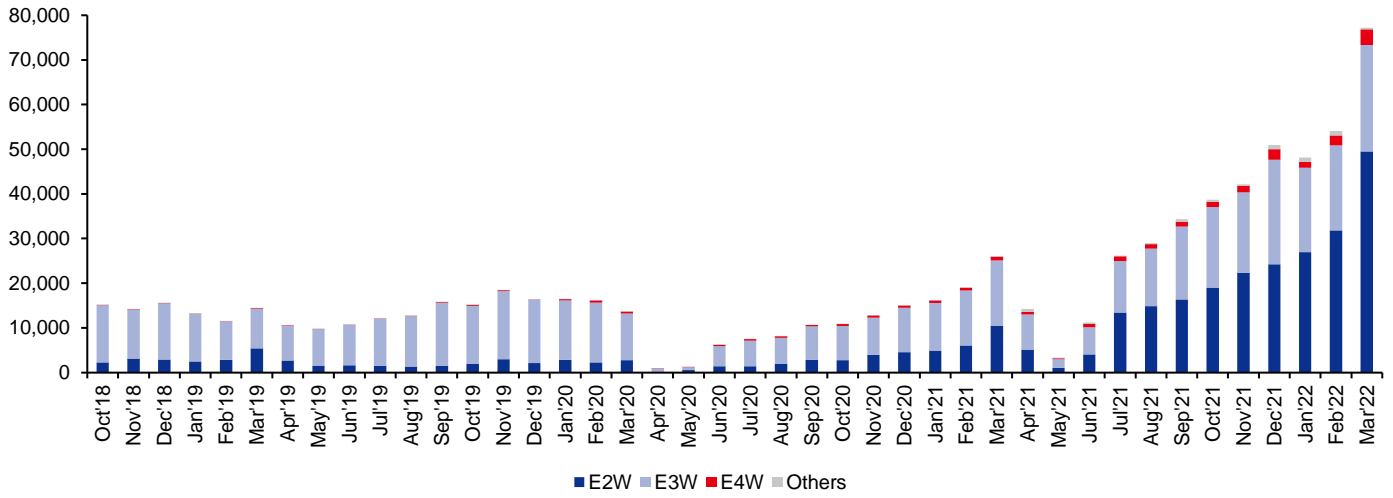
- We hosted li-ion battery expert Rahul Bollini's meet with clients to discuss the winners and losers of ACC PLI (Advanced Chemistry Cell Production Linked-Incentive) scheme, and their future strategies to drive electric vehicle penetration. Hyundai Global Motors, Ola Electric, Reliance New Energy Solar, and Rajesh Exports have been selected under the ACC PLI scheme. Five more firms are on the waiting-list (see table given below).
- The selected companies must set up their plants before Jun 2024, achieve 25% value addition in two years and 65% value addition in five years.
- A task force would overlook the milestones during the course of PLI scheme i.e., production, sales, technology, value addition and disburse subsidy on a quarterly basis. Failure to meet targets leads to penalties, which are twice the incentives given.
- Incentive quantum will reduce over the years, being 0.9x in the 3rd year, 0.72x in the 4th year and 0.43x in the 5th year. This is done on expectations of a fall in battery prices as technology improves, and to thus keep the incentives proportion of selling price similar.
- The expert feels that even with the PLI scheme it will be tough to compete against cheap li-ion cell imports, considering that China gives ~13% export subsidy.
- The expert said Hyundai Global Motors is working on NMC (Nickel-Manganese-Cobalt) pouch form factor technology with LG, but its production ramp-up speed is likely to be gradual. With its aggressive new EV model launch plan and exports to Europe, reliable captive li-ion cell will be an advantage, he said.
- The expert is of the view that Ola Electric is still evaluating LFP (Lithium-Iron-Phosphate) as well as NMC chemistries with various partners. The firm's aggressive E2W production ramp-up plan would benefit from higher subsidy (15% of ASP) won.
- Reliance New Energy is working on LFP and sodium-ion technology for energy storage. Considering that it imported 1Gwh cells in CY21, it is better positioned for ramping up to meet captive ESS consumption and swapping solutions that it plans to extend.
- Rajesh Exports is working on LTO (Lithium-Titanium Oxide) technology, for electric buses and mining trucks. It has an aggressive ramp-up plan for captive consumption.
- Exide and Amara Raja, the two major incumbent lead-acid battery players, have missed out. But considering Exide's low subsidy quote and slow ramp-up plan, the expert feels it will mostly go ahead with its capacity expansion plan.
- The expert said that despite the recent rise in cell prices, manufacturers like Bajaj Auto, Ather and Ola are planning lower-priced vehicles in coming months to drive better EV penetration.

Figure 1: Top 4 companies qualified under the ACC PLI scheme, based on technology and financial ranking

Applicant	Technical Rank	Financial Rank	Final Rank	Capacity Quoted (GWh)	Capacity Awarded (GWh)
Rajesh Exports	1	4	1	5	5
Hyundai Global Motors	5	2	2	20	20
Ola Electric	2	6	3	20	20
Reliance New Energy	3	5	4	20	5
M&M Ltd	4	3	5	15	0
Exide Industries	9	1	6	6	0
L&T Ltd	6	9	7	5	0
Amara Raja	8	7	8	12	0
India Power Corp	7	8	9	5	0

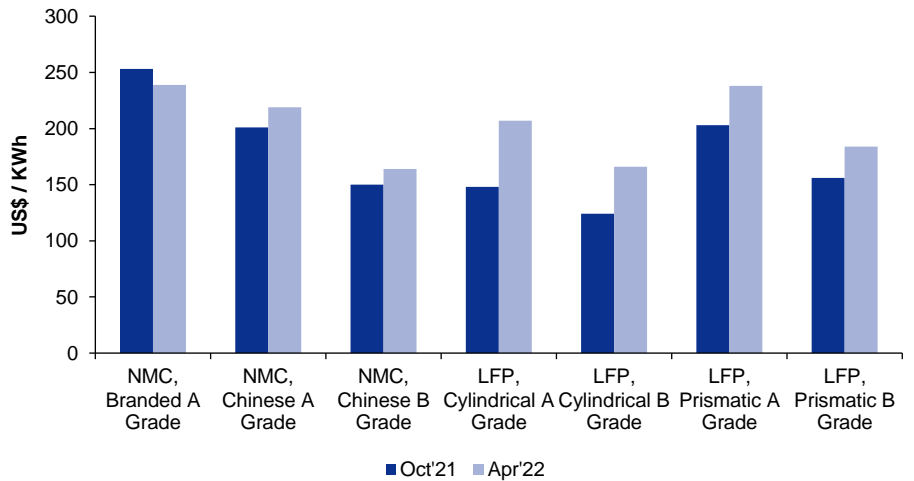
ACC = ADVANCED CHEMISTRY CELL, PLI = PRODUCT LINKED INCENTIVE, SOURCES: NITI AAYOG, INCRED RESEARCH

Figure 2: EV sales on the rise as conventional fuel prices increase and product offerings improve



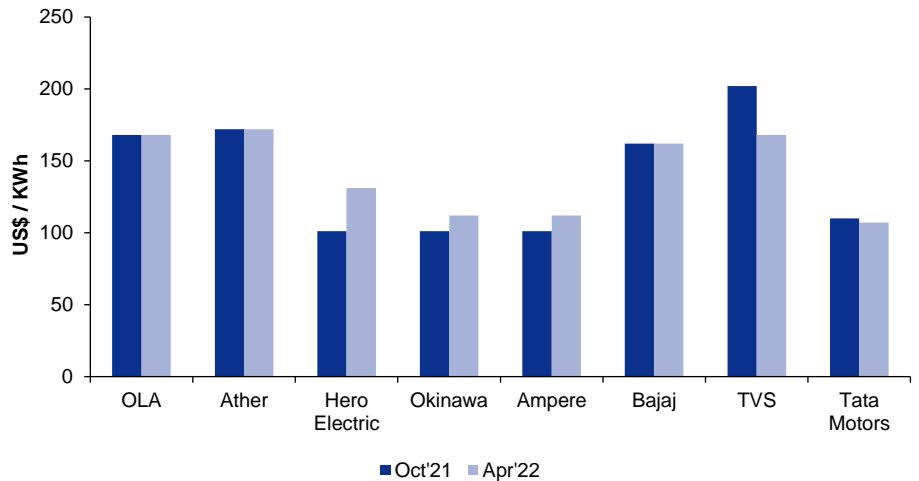
SOURCES: VAHAN, INCRED RESEARCH

Figure 3: Rise in battery cell prices over six months, which is especially steep in case of LFP



NOTE: NMC IS NICKEL MANGANESE COBALT, AND LFP IS LITHIUM IRON PHOSPHATE
SOURCES: INDUSTRY EXPERT ESTIMATES, INCRED RESEARCH

Figure 4: Prices fell for TVS as volume increased, while for Ola and Ather they remained stable due to long-term contracts in place



SOURCES: INDUSTRY EXPERT ESTIMATES, INCRED RESEARCH

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Corporate Governance Report:

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The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. CGS-CIMB Thailand does not confirm nor certify the accuracy of such survey result.

Score Range:	90 - 100	80 – 89	70 - 79	Below 70	No Survey Result
Description:	Excellent	Very Good	Good	N/A	N/A

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Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2021, Anti-Corruption 2021

ADVANC – Excellent, Certified, **AMATA** – Excellent, Certified, **ANAN** – Excellent, n/a, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Excellent, n/a, **AWC** – Excellent, Declared, **AU** – Good, n/a, **BAM** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Excellent, Certified, **BCH** – Very Good, Certified, **BCP** - Excellent, Certified, **BCPG** – Excellent, Certified, **BDMS** – Excellent, n/a, **BEAUTY** – Good, n/a, **BEM** – Excellent, n/a, **BH** - Good, n/a, **BJC** – Very Good, n/a, **BLA** – Very Good, Certified, **BTS** - Excellent, Certified, **CBG** – Very Good, n/a, **CGET** – n/a, n/a, **CENDEL** – Excellent, Certified, **CHAYO** – Very Good, n/a, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COM7** – Excellent, Certified, **CPALL** – Excellent, Certified, **CPF** – Excellent, Certified, **CPN** - Excellent, Certified, **CPNREIT** – n/a, n/a, **CRC** – Excellent, Declared, **DELTA** - Excellent, Certified, **DDD** – Excellent, n/a, **DIF** – n/a, n/a, **DOHOME** – Very Good, Declared, **DREIT** – n/a, n/a, **DTAC** – Excellent, Certified, **ECL** – Excellent, Certified, **EGCO** - Excellent, Certified, **EPG** – Excellent, Certified, **ERW** – Very Good, Certified, **GFPT** - Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Excellent, n/a, **HANA** - Excellent, Certified, **HMPRO** - Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Certified, **III** – Excellent, Declared, **INTUCH** - Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** - Excellent, Certified, **JASIF** – n/a, n/a, **JKN** – n/a, Certified, **JMT** – Very Good, n/a, **KBANK** - Excellent, Certified, **KCE** - Excellent, Certified, **KEX** – Very Good, Declared, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** - Excellent, Certified, **KTC** – Excellent, Certified, **LH** - Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MAKRO** – Excellent, Certified, **MC** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** - Excellent, Certified, **MTC** – Excellent, Certified, **NETBAY** – Very Good, n/a, **NRF** – Very Good, Declared, **OR** – Excellent, n/a, **ORI** – Excellent, Certified, **OSP** – Excellent, n/a, **PLANB** – Excellent, Certified, **PRINC** – Very Good, Certified, **PR9** – Excellent, Declared, **PSH** – Excellent, Certified, **PTT** - Excellent, Certified, **PTTEP** - Excellent, n/a, **PTTGC** - Excellent, Certified, **QH** – Excellent, Certified, **RAM** – n/a, n/a, **RBF** – Very Good, n/a, **RS** – Excellent, Declared, **RSP** – Good, n/a, **S** – Excellent, n/a, **SAK** – Very Good, Declared, **SAPPE** – Very Good, Certified, **SAWAD** – Very Good, n/a, **SCB** - Excellent, Certified, **SCC** – Excellent, Certified, **SCGP** – Excellent, Declared, **SECURE** – n/a, n/a, **SHR** – Excellent, n/a, **SIRI** – Excellent, Certified, **SPA** – Very Good, n/a, **SPALI** - Excellent, Certified, **SPRC** – Excellent, Certified, **SSP** - Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Very Good, Certified, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIDLOR** – n/a, Certified, **TISCO** - Excellent, Certified, **TKN** – Very Good, n/a, **TOP** - Excellent, Certified, **TRUE** – Excellent, Certified, **TTB** - Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Certified, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – n/a, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

- CG Score 2021 from Thai Institute of Directors Association (IOD)

- Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of August 5, 2021) are categorised into: companies that have declared their intention to join CAC, and companies certified by CAC.

Recommendation Framework

Stock Ratings

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.

Country Ratings

Definition:

Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
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.