India

March 15, 2023 - 9:05 PM

Overweight *(no change)*

Highlighted Companies

Ashok Leyland

ADD, TP Rs175, Rs140 close

The Central government's thrust on infrastructure capex augurs well for tipper truck demand initially and for haulage trucks in the medium term. We maintain our ADD rating on Ashok Leyland due to sustainability of the commercial vehicle upcycle from infrastructure spending push, market share gains in recent quarters and easing ASP discount in the industry.

Bharat Forge

ADD, TP Rs967, Rs789 close

BFL's management is not worried about the recent US class-8 truck order weakness as the booking slots for entire CY23F are booked, and it expects a healthy volume growth in CY23F and CY24F. Aluminium forgings capacity of 7.5m units is being ramped up slowly as the new capacity is operating at just 30% due to training of manpower and the delay in new car launch programme.

Escorts Kubota Ltd

REDUCE, TP Rs1796, Rs1896 close

Considering the government's lower rural spending plan for FY24F and emissions norm upgrade in above 50HP tractors from Jan 2023, we feel the headwinds for the tractor industry's volume growth are high. We maintain our REDUCE rating on it as the tractor industry's challenges and its struggle in the short term to sustain market share is an area of concern.

Summary Valuation Metrics

P/E (x)	Mar22-F	Mar23-F	Mar24-F
Ashok Leyland	1369.44	40.42	23.73
Bharat Forge	26.73	62.45	34.65
Escorts Kubota Ltd	27.37	33.31	20.52

P/BV (x)	Mar22-F	Mar23-F	Mar24-F
Ashok Leyland	5.59	5.22	4.68
Bharat Forge	5.59	4.54	3.88
Escorts Kubota Ltd	2.66	2.49	2.26

Dividend Yield	Mar22-F	Mar23-F	Mar24-F
Ashok Leyland	0.57%	1.22%	1.97%
Bharat Forge	0.7%	1.01%	1.27%
Escorts Kubota Ltd	0.44%	0.5%	0.76%

Analyst(s)

Pramod AMTHE
T (91) 22 4161 1541
E pramod.amthe@incredcapital.com

Hitesh THAKURANI
T (91) 22 4161 1554
E hitesh.thakurani@incredcapital.com

Auto & Parts - Overall

InCred conference takeaways

- We hosted Ashok Leyland, Escorts Kubota and Bharat Forge in our second virtual conference recently.
- Ashok Leyland expects the MHCV's industry growth to ease to 7-8% in FY24F on a high base but expects MHCV sales uptrend to sustain till FY25F.
- Individual product expansion drivers at Bharat Forge and Escorts Kubota to aid their medium-term sales growth. Maintain Overweight rating on the sector.

Ashok Leyland

- Management expects the MHCV industry's growth at 7-8% in FY24F, on a high base effect. Tipper truck and bus segments will be key growth drivers. Management expects the commercial vehicle or CV upcycle to continue till FY25F as the Government of India's capex multiplier effect plays out.
- The two major dampeners to watch out on the demand front are rising interest rates and diesel prices (stable now but remain on the higher side). In tonnage terms, management feels the previous peak of new vehicle tonnage addition will be topped in 4QFY23F.
- Management stated that margin improvement should continue on the back of price hikes, raw material cost coming down and control on administrative overhead cost.
- Capacity utilization overall has been around 60-65% for the company. It has doubled small truck capacity to 120,000 units per annum.

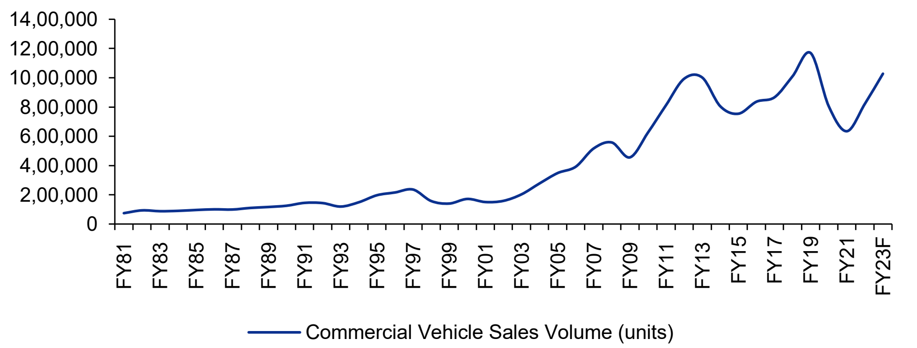
Bharat Forge

- Consolidated margin to improve from 3QFY23 lows as the defence business begins to deliver, E2W division breaks even, and the losses in aluminium forgings diminish.
- Standalone margins should improve as the defence division's cost get proportioned to the subsidiary and cost inflation eases, leading to 28-29% margins.
- Aluminium forgings business faced challenges from older lower raw material price contracts and higher power cost. Capacity ramp-up should enable the turnaround soon.
- JS Auto aims to figure among the top-3 castings makers in India, as it is a lower capital-intensive business. Its sales so far in FY23 were flat as a Russian wind energy client was impacted. Going ahead, a 20% sales growth is likely.
- Working capital should ease as the defence business attracts advance payments.

Escorts Kubota

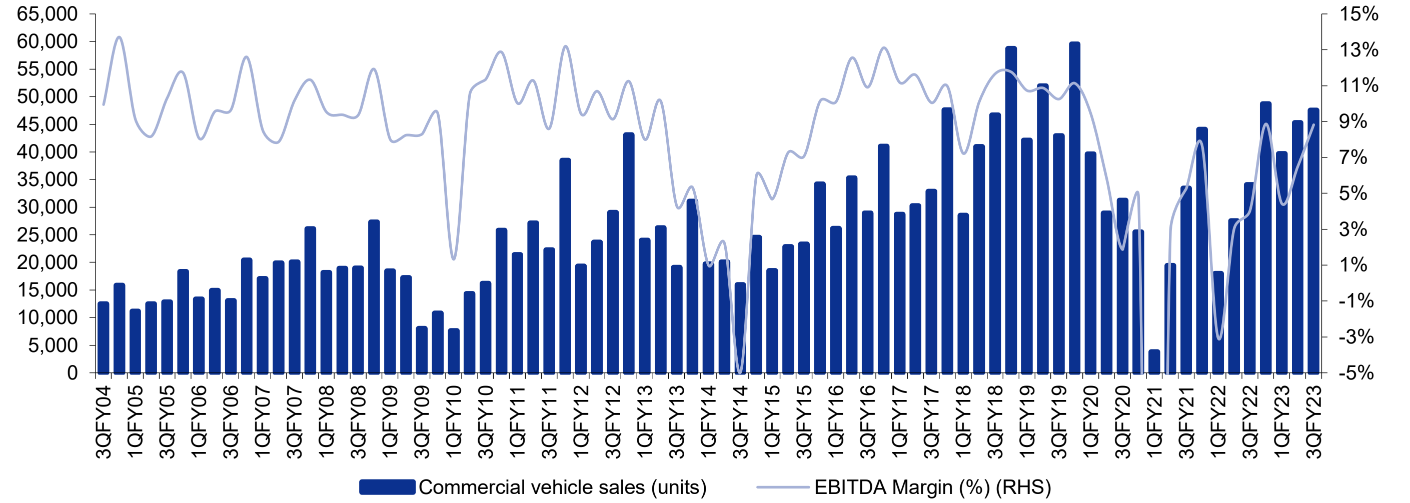
- Management targets to grow the company's topline (from FY22 to FY28F) by 2.5x for the agri division, 2x for the construction division and 3x for the railway division, with exports accounting for 15-20% of overall revenue.
- Kubota is sourcing US$1bn of products from China and Turkey. The China+1 manufacturing strategy should help increase its manufacturing in India.
- The company is looking for a tractor finance plan from Kubota. Combined market share, including Kubota is 13% now, which it plans to raise to 18+% by FY28F.
- Manufacturing back-end to be managed by the Japanese team while the front-end of marketing will be managed by the Indian team.

Figure 1: Commercial vehicle sales volume cycle over the years



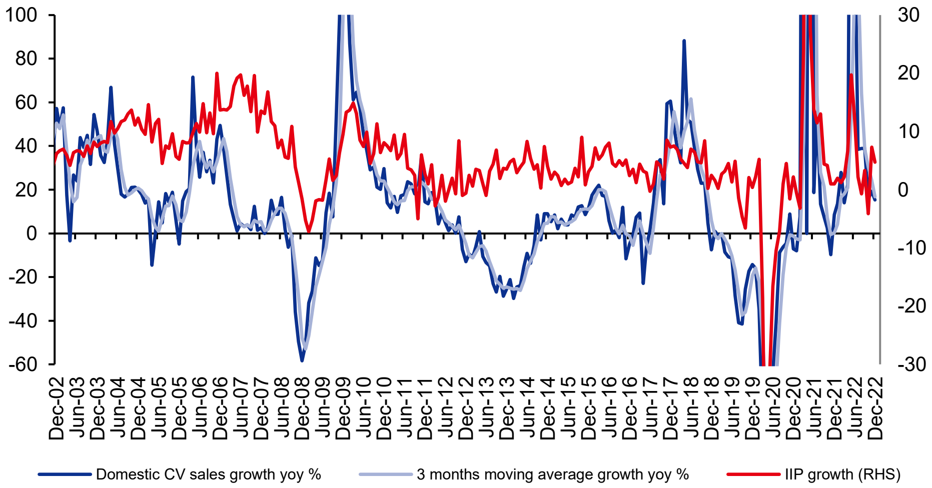
SOURCE: SIAM (SOCIETY OF INDIAN AUTOMOBILE MANUFACTURERS), INCRED RESEARCH

Figure 2: Ashok Leyland's margin improvement could continue, but watch out for interest rates and diesel prices



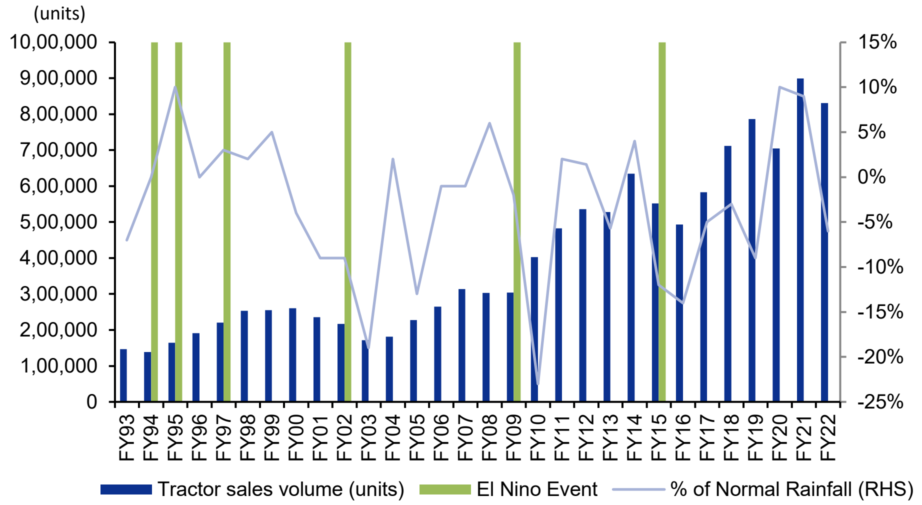
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Index of Industrial Production or IIP inching up to help drive the CV sales momentum



SOURCE: BLOOMBERG, SIAM, INCRED RESEARCH

Figure 4: El Nino impact on rainfall and tractor demand over the years



SOURCE: TRACTOR AND MECHANIZATION ASSOCIATION, INDIA METEOROLOGICAL DEPARTMENT, INCRED RESEARCH

DISCLAIMER

This report (including the views and opinions expressed therein, and the information comprised therein) has been prepared by Incred Research Services Private Ltd.(formerly known as Earnest Innovation Partners Private Limited) (hereinafter referred to as "IRSPL"). IRSPL is registered with SEBI as a Research Analyst vide Registration No. INH000011024. Pursuant to a trademark agreement, IRSPL has adopted "Incred Equities" as its trademark for use in this report.

The term "IRSPL" shall, unless the context otherwise requires, mean IRSPL and its affiliates, subsidiaries and related companies. This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject IRSPL and its affiliates/group companies to registration or licensing requirements within such jurisdictions.

This report is being supplied to you strictly on the basis that it will remain confidential. No part of this report may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means; or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of IRSPL.

The information contained in this report is prepared from data believed to be correct and reliable at the time of issue of this report.

IRSPL is not required to issue regular reports on the subject matter of this report at any frequency and it may cease to do so or change the periodicity of reports at any time. IRSPL is not under any obligation to update this report in the event of a material change to the information contained in this report. IRSPL has not any and will not accept any, obligation to (i) check or ensure that the contents of this report remain current, reliable or relevant; (ii) ensure that the content of this report constitutes all the information a prospective investor may require; (iii) ensure the adequacy, accuracy, completeness, reliability or fairness of any views, opinions and information, and accordingly, IRSPL and its affiliates/group companies (and their respective directors, associates, connected persons and/or employees) shall not be liable in any manner whatsoever for any consequences (including but not limited to any direct, indirect or consequential losses, loss of profits and damages) of any reliance thereon or usage thereof.

Unless otherwise specified, this report is based upon reasonable sources. Such sources will, unless otherwise specified, for market data, be market data and prices available from the main stock exchange or market where the relevant security is listed, or, where appropriate, any other market. Information on the accounts and business of company(ies) will generally be based on published statements of the company(ies), information disseminated by regulatory information services, other publicly available information and information resulting from our research. Whilst every effort is made to ensure that statements of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable as of the date of the document in which they are contained and must not be construed as a representation that the matters referred to therein will occur. Past performance is not a reliable indicator of future performance. The value of investments may go down as well as up and those investing may, depending on the investments in question, lose more than the initial investment. No report shall constitute an offer or an invitation by or on behalf of IRSPL and its affiliates/group companies to any person to buy or sell any investments.

The opinions expressed are based on information which are believed to be accurate and complete and obtained through reliable public or other non-confidential sources at the time made. (Information barriers and other arrangements may be established where necessary to prevent conflicts of interests arising. However, the analyst(s) may receive compensation that is based on his/their coverage of company(ies) in the performance of his/their duties or the performance of his/their recommendations. In reviewing this report, an investor should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additional information is, subject to the duties of confidentiality, available on request.

The report is not a "prospectus" as defined under Indian Law, including the Companies Act, 2013, and is not, and shall not be, approved by, or filed or registered with, any Indian regulator, including any Registrar of Companies in India, SEBI, any Indian stock exchange, or the Reserve Bank of India. No offer, or invitation to offer, or solicitation of subscription with respect to any such securities listed or proposed to be listed in India is being made, or intended to be made, to the public, or to any member or section of the public in India, through or pursuant to this report.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of IRSPL. Information barriers and other arrangements have been established, as required, to prevent any conflicts of interests.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of IRSPL. Information barriers and other arrangements have been established, as required, to prevent any conflicts of interests.

IRSPL may have issued other reports (based on technical analysis, event specific, short term views etc.) that are inconsistent with and reach different conclusion from the information presented in this report.

Holding of Analysts/Relatives of Analysts, IRSPL and Associates of IRSPL in the covered securities, as on the date of publishing of this report

	Analyst/ Relative	Entity/ Associates
any financial interests in the company covered in this report (subject company) and nature of such financial interest	NO	NO
actual/beneficial ownership of 1% or more in securities of the subject company at the end of the month immediately preceding the date of publication of the research report or date of the public appearance;	NO	NO
any other material conflict of interest at the time of publication of the research report or at the time of public appearance	NO	NO
received any compensation from the subject company in the past twelve months for investment banking or merchant banking or brokerage services or investment advisory or depository or distribution from the subject company in the last twelve months for products/services other than investment banking or merchant banking or broker- age services or investment advisory or depository or distribution from the subject company in the last twelve months	NO	NO
managed or co-managed public offering of securities for the subject company in the last twelve months	NO	NO
received any compensation or other benefits from the subject company or third party in connection with the research report	NO	NO
served as an officer, director or employee of the subject company	NO	NO
been engaged in market making activity for the subject company	NO	NO

Analyst declaration

- The analyst responsible for the production of this report hereby certifies that the views expressed herein accurately and exclusively reflect his or her personal views and opinions about any and all of the issuers or securities analysed in this report and were prepared independently and autonomously in an unbiased manner.
- No part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations(s) or view(s) in this report or based any specific investment banking transaction.
- The analyst(s) has(have) not had any serious disciplinary action taken against him/her(them).
- The analyst, strategist, or economist does not have any material conflict of interest at the time of publication of this report.
- The analyst(s) has(have) received compensation based upon various factors, including quality, accuracy and value of research, overall firm performance, client feedback and competitive factors.

IRSPL and/or its affiliates and/or its Directors/employees may own or have positions in securities of the company(ies) covered in this report or any securities related thereto and may from time to time add to or dispose of, or may be materially interested in, any such securities.

IRSPL and/or its affiliates and/or its Directors/employees may do and seek to do business with the company(ies) covered in this research report and may from time to time (a) buy/sell the securities covered in this report, from time to time and/or (b) act as market maker or have assumed an underwriting commitment in securities of such company(ies), and/or (c) may sell them to or buy them from customers on a principal basis and/or (d) may also perform or seek to perform significant investment banking, advisory, underwriting or placement services for or relating to such company(ies) and/or (e) solicit such investment, advisory or other services from any entity mentioned in thisreport and/or (f) act as a lender/borrower to such company and may earn brokerage or other compensation. However, Analysts are forbidden to acquire, on their own account or hold securities (physical or uncertificated, including derivatives) of companies in respect of which they are compiling and producing financial recommendations or in the result of which they play a key part.