

India

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Overweight (no change)**Highlighted Companies****Bajaj Auto****ADD, TP Rs5775, Rs6701 close**

Topped the 10k mark in Chetak EV sales and E3W sales are gradually improving. There was a marginal improvement in exports, which is likely to sustain. We retain our ADD rating on the stock.

Mahindra & Mahindra**HOLD, TP Rs1595, Rs1703 close**

Considering that the tractor division accounts for a large part of M&M's profitability and the company being the leader with a 42% market share, it will be most vulnerable to industry volume collapsing from its peak. We downgrade our rating on M&M to HOLD (ADD earlier).

Maruti Suzuki**ADD, TP Rs12552, Rs10283 close**

Industry is likely to post single-digit growth in CY24F, but Maruti Suzuki's Assault SUV to drive better value market share. The plan to double capacity in the medium term gives visibility on driving strong growth in the under-penetrated car segment. We retain our ADD rating on the stock.

Summary Valuation Metrics

P/E (x)	Mar24-F	Mar25-F	Mar26-F
Bajaj Auto	27.58	23.88	21.21
Mahindra & Mahindra	19.38	18.47	17.09
Maruti Suzuki	25.15	21.48	20.25

P/BV (x)	Mar24-F	Mar25-F	Mar26-F
Bajaj Auto	7.01	6.44	5.87
Mahindra & Mahindra	3.71	3.26	2.89
Maruti Suzuki	4.7	3.55	3.21

Dividend Yield	Mar24-F	Mar25-F	Mar26-F
Bajaj Auto	2.48%	2.92%	3.21%
Mahindra & Mahindra	1.43%	1.74%	1.9%
Maruti Suzuki	1.4%	1.7%	1.94%

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Autos**Dec 2023 sales volume performance**

- Dec 2023 MoM sales volume decline was sharper than our expectations across segments while tractor sales were the worst-hit.
- A big miss vs. our expectation was in Escorts Kubota, M&M and Eicher Motors. The dip in tractor volume, we believe, will prolong throughout CY24F.
- With the Nifty Auto Index spike in recent months, forward P/E valuation inches close to +1SD above mean level. Retain OW rating but turn selective in stocks.

Dec 2023 sales volume highlights

- YoY growth leaders were TVS Motor (+29%), Bajaj Auto (+16%) & Tata Motors (+5%). The laggards were Escorts Kubota (-19%), Ashok Leyland (-10%), Eicher Motors (-6%), Maruti Suzuki (-1%) and Mahindra & Mahindra (-0.1%).
- MoM growth leaders were Ashok Leyland (+16%) & Tata Motors (+5%). MoM laggards were Escorts Kubota (-45%), M&M (-23%), Hero MotoCorp (-20%), Eicher Motors (-19%), Bajaj Auto (-19%), Maruti Suzuki (-16%) & TVS Motor (-14%).
- Miss vs. our expectations: All companies in our coverage missed our estimates, with the prominent ones being Escorts Kubota (-53%), M&M (-17%) & Eicher Motors (-17%).
- Vahan retail sales, and the volume in two-wheelers or 2W grew by 27% yoy while car volume remained flat on a YoY basis. Electric vehicle or EV retail sales witnessed a growth of 35% yoy while they declined by 3% on a MoM basis. Market leaders Maruti Suzuki and Hero MotoCorp lost market share of ~4% each on a MoM basis.

Company-wise performance and outlook

- **Escorts Kubota:** The rural market sentiment was adversely impacted because of the delay in crop harvesting and lower rabi crop sowing.
- **Maruti Suzuki:** Urban market growth was better vs. rural in Dec 2023, but it was aided by discounts. Gave guidance of single-digit volume growth for the car industry in CY24F.
- **Bajaj Auto:** Exports witnessed some delay/disruption because of the ongoing crisis in the Red Sea impacting container availability.
- **Eicher Motors:** The decline in its volume was in both domestic and export markets while its management indicated no major impact from the recent floods in Chennai.

Maintain overweight rating for the sector

- The sharp 15% rise in Nifty Auto Index in the last three months led the forward P/E valuation to top the 10-year mean level and be just 10% below +1SD level. The best of lower commodity costs has been captured in the EBITDA margin while EPS growth is linked to volume growth. We have turned selective in stocks, retaining our Overweight (OW) rating on automobile OEMs and Neutral rating on automobile component makers.
- We recently downgraded M&M's rating to HOLD as the tractor industry's cyclical downturn concerns increase due to a combination of rising non-performing assets or NPAs and emission cost upgrade impact on volume & margins. The pecking order of our ADD-rated stocks is Maruti Suzuki, Ashok Leyland & Bajaj Auto. We retain our REDUCE rating on Tata Motors, Eicher Motors, Escorts Kubota & TVS Motor.

Figure 1: Monthly automobile wholesale dispatches in Dec 2023

Company	Dec-23	YoY %	MoM %	Apr 23-Dec 23	YoY %	vs forecast
Maruti Suzuki	1,37,551	(1.3)	(16.4)	15,51,292	6.9	(12.9)
Mahindra & Mahindra	79,326	(0.7)	(22.7)	9,16,402	10.8	(17.4)
Tata Motors	77,855	4.7	5.0	7,04,250	0.2	(5.1)
Bajaj Auto	3,26,806	16.1	(18.9)	32,82,357	7.0	(5.3)
Eicher Motors	71,376	(5.6)	(19.1)	7,54,618	12.7	(16.7)
Hero MotoCorp	3,93,952	(0.1)	(19.8)	42,29,032	4.2	(3.9)
TVS Motor	3,12,213	29.0	(14.3)	31,76,923	12.9	(6.9)
Ashok Leyland	16,324	(10.0)	16.2	1,38,416	4.5	(10.8)
Escorts Kubota	4,536	(18.6)	(45.1)	74,600	(5.0)	(52.8)

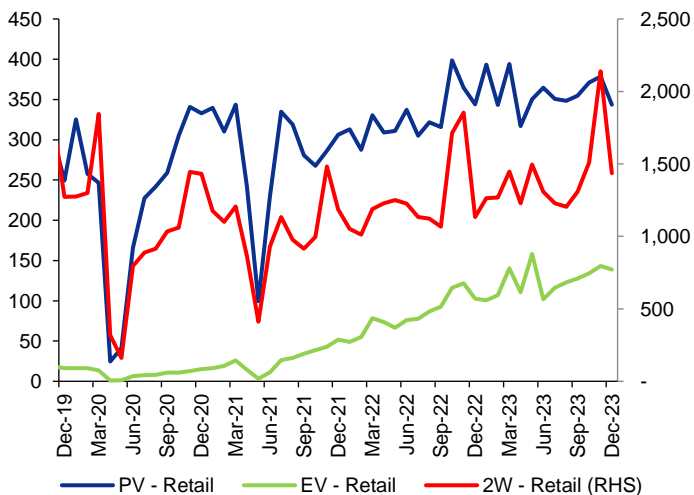
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Monthly automobile wholesale dispatches (company-wise and segment-wise)

Company	Dec-23	YoY %	MoM %	Apr 23-Dec 23	YoY %	vs. forecast
Maruti Suzuki						
Domestic	1,10,667	(5.9)	(21.8)	13,46,965	7.2	(19.2)
Exports	26,884	23.3	17.1	2,04,327	5.0	28.0
Grand Total	1,37,551	(1.3)	(16.4)	15,51,292	6.9	(12.9)
Mahindra & Mahindra						
Utility Vehicles	35,174	23.7	(12.0)	3,33,778	28.4	(2.3)
Pick-up, Gio & Maxximo	15,517	(19.2)	(27.4)	1,84,925	4.4	(31.0)
3-Wheelers	5,307	5.0	(19.2)	60,503	47.9	(24.2)
Trucks & Buses	2,371	169.7	180.9	10,649	63.0	149.6
Tractors	19,138	(17.7)	(40.3)	3,06,742	(3.5)	(29.4)
Auto Exports	1,819	(41.3)	0.2	19,805	(19.9)	(27.2)
Grand Total	79,326	(0.7)	(22.7)	9,16,402	10.8	(17.4)
Tata Motors						
CVs	34,180	0.7	21.9	2,86,406	(3.7)	(2.3)
PVs	43,675	8.1	(5.3)	4,17,844	3.1	(7.1)
Grand Total	77,855	4.7	5.0	7,04,250	0.2	(5.1)
Bajaj Auto						
Motorcycles	2,83,001	14.6	(18.9)	28,11,106	3.5	(5.7)
3-Wheelers	43,805	27.1	(18.8)	4,71,251	34.4	(2.7)
Grand Total	3,26,806	16.1	(18.9)	32,82,357	7.0	(5.3)
Eicher Motors						
Royal Enfield	63,387	(7.3)	(21.0)	6,92,114	12.3	(19.8)
VECV	7,989	10.6	(0.1)	62,504	17.4	19.2
Grand Total	71,376	(5.6)	(19.1)	7,54,618	12.7	(16.7)
Hero MotoCorp						
Grand Total	3,93,952	(0.1)	(19.8)	42,29,032	4.2	(3.9)
TVS Motor						
Domestic 2W	2,14,988	33.2	(25.1)	23,72,950	23.6	(6.5)
Export 2W	85,391	28.8	31.2	6,84,733	(9.2)	(2.8)
3W	11,834	(17.5)	(2.4)	1,19,240	(14.8)	(32.2)
Grand Total	3,12,213	29.0	(14.3)	31,76,923	12.9	(6.9)
Ashok Leyland						
MHCVs	10,800	(11.9)	27.1	87,736	4.9	(12.2)
LCVs	5,524	(6.0)	(0.5)	50,680	3.7	(7.9)
Grand Total	16,324	(10.0)	16.2	1,38,416	4.5	(10.8)
Escorts Kubota						
Domestic	4,131	(17.0)	(47.4)	70,322	(2.6)	(52.5)
Exports	405	(31.8)	0.5	4,278	(32.5)	(55.0)
Grand Total	4,536	(18.6)	(45.1)	74,600	(5.0)	(52.8)

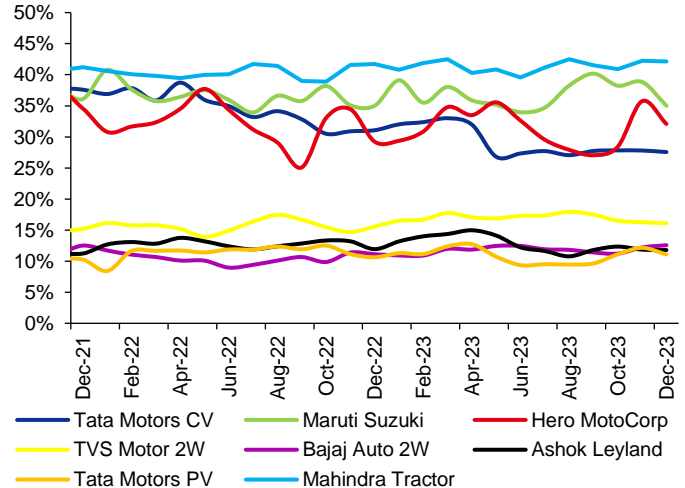
SOURCE: INCRED RESEARCH, COMPANY REPORTS

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



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Domestic retail segment market share of various players



SOURCE: INCRED RESEARCH, COMPANY REPORTS

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