

India

December 02, 2024 - 8:40 PM

Neutral (no change)

Highlighted Companies

Hero MotoCorp

ADD, TP Rs5810, Rs4748 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, Rs11239 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 Rs746, Rs790 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	24.33	19.58	17.77
Maruti Suzuki	27.65	23.43	20.25
Tata Motors	9.12	12.89	10.51

P/BV (x)	Mar24-A	Mar25-F	Mar26-F
Hero MotoCorp	5.28	4.83	4.44
Maruti Suzuki	4.21	3.31	2.99
Tata Motors	3.42	2.77	2.24

Dividend Yield	Mar24-A	Mar25-F	Mar26-F
Hero MotoCorp	2.95%	3.37%	3.79%
Maruti Suzuki	1.11%	1.42%	1.69%
Tata Motors	0.53%	0.79%	1.05%

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Autos

Nov 2024 auto sales volume performance

- 2W demand momentum in Nov 2024, despite a large base, was impressive. However, the car segment continues to rely on discounts to support growth.
- The volume disappointment of Escorts Kubota and Hyundai Motor India supports our REDUCE rating on them.
- Nifty Auto Index's forward P/E eased to the 10-year mean level. Retain Neutral sector weight. Our ADD-rated stocks: Hero MotoCorp, Maruti, Ashok Leyland.

Nov 2024 sales volume highlights

- **The YoY growth leaders** were TVS Motor (+11%), Maruti Suzuki (+10%), Mahindra & Mahindra or M&M (+10%), Bajaj Auto (+7%) and Eicher Motors (+3%). The YoY laggards: Escorts Kubota (-9%), Hyundai Motor (-7%) & Hero MotoCorp (-6%).
- **Beat vs. our expectations:** Tata Motors (+4%) & TVS Motor (+3%).
- **Miss vs. expectations:** Eicher Motors (-16%), Ashok Leyland (-12%), Hero MotoCorp (-8%), Maruti Suzuki (-7%), M&M (-4%) & Hyundai Motor (-2%).
- **Vahan retail sales:** Nov 2024 retail sales indicate a yoy growth in tractor (+34%) & 2Ws (+22%) led by faster rural market revival. Electric vehicles or EVs saw volume growth of 34% while car sales were flat. Adjusting for the festive period impact of Nov 2023, in the festive season of 2024 (Oct & Nov combined yoy), EVs (+47%) saw the fastest yoy growth in the pack followed by 2Ws (+28%), tractors (+19%) & cars (+18%). Hero MotoCorp gained significant market share in 2Ws while Maruti Suzuki's share declined.

Retain Neutral sector rating as stock prices correct

- Sustenance of double-digit growth in 2Ws, post festivals, is encouraging, aided by the marriage season demand. Low-speed electric scooter launch will enable import substitution. The car segment continues to witness elevated ASP discounts to drive customer enquiry conversion. Nifty Auto Index's 15% correction from its Sep 2024 peak has been steep & worse than our conservative neutral sector weight call since May 2024. We see valuation comfort in select stocks, leading to Eicher Motors' upgrade to HOLD.
- We retain our sector rating as the forward P/E valuation has slipped to the 10-year mean & the triggers seem to be missing. Demand revival is expected after the likely interest rate cut by the Reserve Bank of India in early CY25F. Commercial vehicle demand recovery awaits a revival in government spending on infrastructure in 2HFY25F.
- We remain selective on the sector as volume growth is selective. Our order of preference is Hero MotoCorp, Maruti Suzuki, & Ashok Leyland, with an ADD rating. We retain our REDUCE rating on Tata Motors, Hyundai Motor India & TVS Motor as the weakness in their sales volume and financials is not captured by their rich valuations. We have a HOLD rating on Eicher Motors, 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.
- In 2Ws, we prefer Hero MotoCorp & Eicher Motors over Bajaj Auto & TVS Motor. Hero's MotoCorp's market share recovery can sustain with marriage season/rural demand momentum.

Figure 1: Monthly automobile wholesale dispatches

Company	Nov-24	YoY %	MoM %	vs forecast
Maruti Suzuki	1,81,531	10.4	(12.1)	(6.9)
Hyundai Motor India	61,252	(6.9)	(12.6)	(1.9)
Mahindra & Mahindra	1,12,461	9.6	(30.6)	(3.5)
Tata Motors	79,955	1.3	(9.2)	3.8
Bajaj Auto	4,21,640	6.9	(8.1)	0.4
Eicher Motors	87,831	2.8	(25.4)	(16.3)
Hero MotoCorp	4,59,805	(6.4)	(32.3)	(8.0)
TVS Motor Company	4,04,601	11.1	(17.3)	3.2
Ashok Leyland	14,137	0.6	(7.7)	(11.6)
Escorts Kubota	8,974	(9.4)	(50.4)	0.8

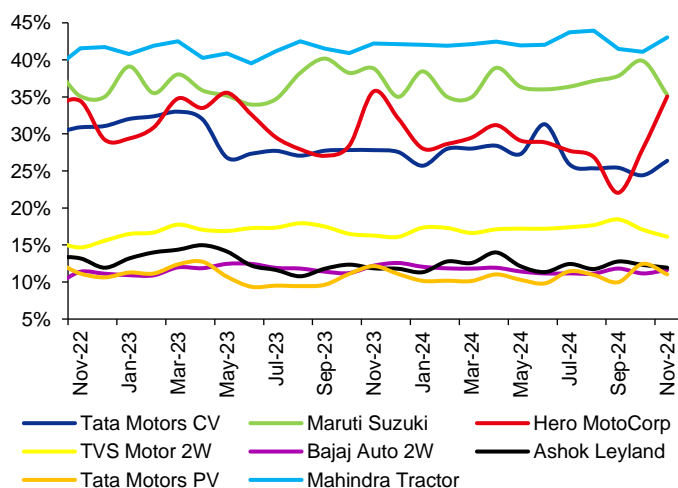
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Company-wise monthly wholesale automobile dispatches

	Nov-24	YoY %	MoM %	Apr-Nov 24	YoY %	vs. forecast
Maruti Suzuki						
Domestic	1,52,898	8.1	(11.8)	12,41,306	0.4	(10.1)
Exports	28,633	24.8	(13.7)	2,10,077	18.4	14.5
Grand Total	1,81,531	10.4	(12.1)	14,51,383	2.7	(6.9)
Hyundai Motors						
Domestic	48,246	(2.4)	(13.2)	4,02,908	(2.1)	(2.4)
Exports	13,006	(20.5)	(10.4)	1,12,416	(3.1)	0.0
Grand Total	61,252	(6.9)	(12.6)	5,15,324	(2.3)	(1.9)
Mahindra & Mahindra						
Utility Vehicles	46,222	15.6	(15.2)	3,60,936	20.9	(3.7)
Pick-up, Gio & Maxximo	21,161	(1.0)	(24.0)	1,56,937	(5.3)	(24.4)
3-Wheelers	8,043	22.5	(18.1)	58,487	6.0	0.5
Trucks & Buses	881	4.4	(10.5)	20,950	76.3	(70.6)
Tractors	33,378	4.1	(49.0)	3,13,680	9.1	22.7
Auto Exports	2,776	52.9	(20.8)	21,009	16.8	20.7
Grand Total	1,12,461	9.6	(30.6)	9,31,999	11.4	(3.5)
Tata Motors						
CVs	27,636	(1.4)	(19.3)	2,37,385	(5.9)	(13.6)
PVs	52,319	2.8	(2.7)	3,64,975	(2.5)	16.3
Grand Total	79,955	1.3	(9.2)	6,02,360	(3.8)	3.8
Bajaj Auto						
Motorcycles	3,68,076	8.1	(6.4)	26,73,573	8.8	2.2
3-Wheelers	53,564	(0.7)	(18.0)	4,58,334	7.2	(10.7)
Grand Total	4,21,640	6.9	(8.1)	31,31,907	8.5	0.4
Eicher Motors						
Royal Enfield	82,257	2.5	(25.6)	6,46,724	2.9	(16.1)
VECV	5,574	7.3	(21.6)	53,162	2.6	(19.2)
Grand Total	87,831	2.8	(25.4)	6,99,886	2.8	(16.3)
Hero MotoCorp						
Grand Total	4,59,805	(6.4)	(32.3)	41,93,736	9.4	(8.0)
TVS Motor						
Domestic 2W	3,05,323	6.4	(21.8)	24,09,622	11.7	1.8
Export 2W	87,150	33.9	(0.6)	6,80,993	13.6	11.4
3W	12,128	1.7	11.7	93,845	(9.5)	(12.7)
Grand Total	4,04,601	11.1	(17.3)	31,84,460	11.3	3.2
Ashok Leyland						
MHCVs	9,176	8.0	(2.5)	74,649	(3.0)	(10.0)
LCVs	4,961	(10.7)	(15.9)	44,315	(1.9)	(14.5)
Grand Total	14,137	0.6	(7.7)	1,18,964	(2.6)	(11.6)
Escorts Kubota						
Domestic	8,730	(8.1)	(51.1)	82,934	0.5	2.7
Exports	244	(39.5)	(10.0)	2,703	(30.2)	(39.0)
Grand Total	8,974	(9.4)	(50.4)	85,637	(0.9)	0.8

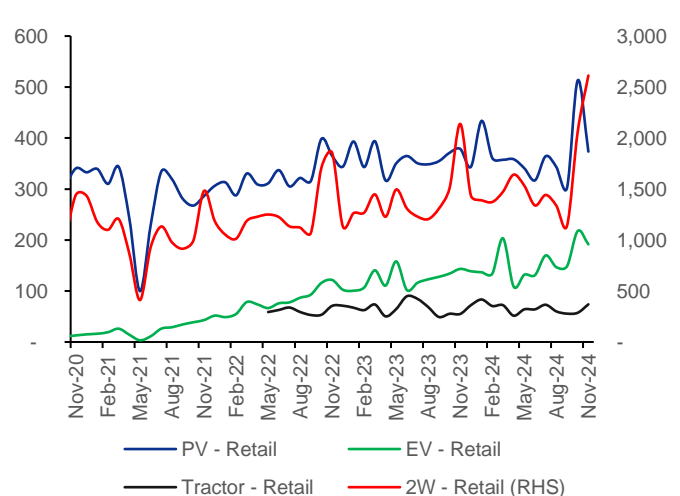
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Domestic retail segment OEMs' market share trend



SOURCE: VAHAN, COMPANY REPORTS

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



SOURCE: VAHAN, COMPANY REPORTS

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- 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.

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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.