

## Channel Check Update

September 29, 2020

### Exhibit 1: PL Coverage

Company Name	Rating	CMP (Rs)	TP (Rs)
Ashok Leyland	BUY	75	76
Bharat Forge	HOLD	448	401
Bajaj Auto	Hold	2,901	2,713
CEAT	Acc	1,007	951
Eicher Motors	Acc	2,196	2,287
Exide Industries	BUY	164	183
Hero Motocorp	Acc	3,177	3,044
M&M	BUY	612	703
Maruti Suzuki	BUY	6,739	6,858
Motherson Sumi	BUY	117	125
Tata Motors	HOLD	132	108
TVS Motors	Sell	471	365

Source: Company, PL

## Inventory restocking ahead of festive, retail weak

### Quick Pointers:

- Inventory across segments increased to 35-45 days (v/s 20-30 days in Aug'20) as dealers overstocked themselves in anticipation of robust demand.
- Increase in fleet rates by 10-15% MoM coupled with gradual pickup in financing activity to support fleet operations from Q3FY21.
- RE took price hike of up to Rs2k on Classic 350/Twins and up to Rs3k on Bullet models while HMSI to increase prices up to Rs2k across models soon.

**Our interactions with leading channel partners indicate muted retails during the month led by inauspicious period of Shradha followed by Adhik Mass.** There was no major change visible in inquiry levels across segments (declined by only 10-15% MoM) rather demand for upcoming festive and improved financing maintained customer's excitement level. Low sales during the period helped industry to prepare for festive demand as dealers overstocked themselves. Average inventory level increased 35-45 days in Sep'20 as compared to 20-30 days in Aug'20 anticipating i) resilient rural demand ii) Upcoming festive demand (Delayed) iii) Reopening of business operations in tier2/3 (75-80% operational) and iv) Preference for personal mobility due to unavailability of public transport. **Despite increase in inventory levels, supply chain remains patchy and not fully synchronized (80-85% of the normal) due to labour challenges with Tier-1 suppliers and stringent financing. This may keep wholesale growth at elevated levels in the coming months.**

### View: Prefer AL and MM among OEMs

- AL (CMP Rs75, TP Rs76)** - We believe MHCV volumes will recover by H1FY22 based on i) economic recovery benefitting demand from segments like Infra, Mining and E-commerce ii) AL de-risking MHCV through- a) New launches in LCV to help gain share b) Increased focus on spares and exports business.
- MM (CMP Rs612, TP Rs703)** - We believe MM is well placed to grow in FY21/22 as FES segment has robust outlook led by healthy farm sentiments and strong rural presence benefitting UV sales. Also, focus on the core intensified with improved capital allocation, plans for loss making subsidiaries (exit or turnaround) and preference for rural exposure.

### Exhibit 2: Snapshot of volumes for Sep-20

Company Sales	Sep-20	Sep-19	YoY gr. (%)	Aug-20	MoM gr. (%)
Maruti Suzuki	1,46,000	1,22,640	19.0	1,24,624	17.2
Mahindra & Mahindra	75,000	80,354	(6.7)	54,884	36.7
Hero MotoCorp	6,55,000	6,12,204	7.0	5,84,456	12.1
Bajaj Auto	4,02,000	4,02,035	(0.0)	3,56,199	12.9
Ashok Leyland	7,900	8,780	(10.0)	6,325	24.9
TVS Motor	3,21,000	3,15,912	1.6	2,87,398	11.7
<b>Eicher Motors</b>					
Royal Enfield	57,500	59,500	(3.4)	50,144	14.7
VECV	2,865	3,784	(24.3)	2,477	15.7

Source: Industry, PL

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**PVs- Higher demand for compact SUV segment coupled with new model launches such as Maruti S-Cross, Kia Sonet and, Hyundai's New Creta/Venue** kept the momentum going for PV segment. While there was no major change in the inquiry level (MoM) our channel check suggests 20-25% MoM decline in retails.

**2W retails were severely impacted during the Shraddha period as it is expected to decline 30-35% MoM.** With customers looking for a personal mobility option due to i) fear of COVID spread and ii) skilled labours coming back to their workplaces iii) lack of availability of public transport due to govt restrictions, demand for low end motorcycles to remain high.

**CVs- Fleet utilization level remained stable during the month at 60-65%.** Despite stable utilization rates, fleet operators witnessed marginal improvement in profitability due to increased fleet rates by 10-15% MoM and stable operating costs. This coupled with gradual pickup in financing activity has given some sort of relief to the fleet owners.

On the other hand, restoration of business activities, increased e-commerce and high farm output led to higher inquiries for LCV segment. While conversion is expected to remain weak during the month, we expect demand to see an uptick once festive kicks in.

**Tractor- Impact of low demand in northern belt was partially offset by recovery in western and southern belts** resulting in better than expected demand for tractors during the month. Although, dealer inventory increased to some extent by 3-4 weeks (v/s 2-3 week earlier) it is not enough to match up with anticipated festive demand.

*In the long term, we estimate that the market would continue to be very strong as the economy, in the long run, will be positive. We all are bullish about the growth. But in the short term, we are finding it difficult to predict*

**Shashank Srivastava, ED- Marketing & Sales, MSIL**

## Wholesales estimate for September'20

- **PV-** MSIL wholesale is expected to increase 19% YoY at 146k while MM automotive sales is expected at 36k units (-17% YoY).
- **2W-** Estimate for BJAUT (incl 3W) at 402k (flat YoY), HMCL at 655k (+7% YoY), TVS (incl 3W) at 321k (+2% YoY) and RE at 57.5k (-3% YoY).
- **CV-** We expect AL wholesales to decline to 7.9k (-10% YoY).
- **Tractor-** We expect MM tractor sales to increase by 5% YoY at 39k units.

## PV: Excitement of new launches drive better inquiries

- **PV inquiries were least impacted among the segments** with retails declining by 20-25% MoM. The demand was more profound in rural belts of UP, MP, Bihar and Rajasthan due to i) higher farm output (growth of 5-6% YoY) and ii) recovery in business activities at ~90% of the normal (v/s 75-80% in urban region) and iii) preference for personal mobility.
- **OEMs witnessed higher than expected inquiries across the model despite inauspicious period-** Compact SUV gained traction during the month led by higher booking for new models such as S-Cross, New Creta, Venue and Sonet. Out of all these models, New Creta has gained largest traction with waiting period of 30-35 days and total booking crossed over 80k in last 6 months.
- **Inventory level increased to 30-35 days (v/s 20-25 days earlier)** However, supply chain has not yet improved in large synchronized way as there is visible shortage of key models like Swift and WagonR in several regions.
- We believe PV wholesale to grow significantly in the coming months on the back of i) strong rural demand ii) lower inventory levels iii) supportive financing (LTV for PVs increased ~85% v/s 80% during lockdown phase).

## 2W: Sharp increase in inventory levels sequentially

- **Our channel check suggests 30-35% MoM decline in 2W retails** led by decline in inquiries during the month (largely in Northern and Central belt). However, we expect 2W sales to pick up as i) rural demand is still resilient ii) lack of public transport availability in tier1/2 regions and iii) people migrating back to their workplace.
- **Inventory levels increased to ~45 days (v/s 25-30 days in Aug'20)** as dealers are optimistic about the festive demand. HMSI holds the largest inventory at 50-55 days followed by HMCL (45-50 days) and TVS/BJAUT (40-45 days).
- **RE retails declined 35-40% MoM led by weak inquiries in key northern regions.** Despite muted retails EIM has not yet managed to fully pick up its supply chain as inventory levels are still at 3-5 days. It has already got **bookings of ~1-1.5 months** for Classic 350.
- **RE, BJAUT and HMSI indicated a price increase-** RE has taken price hike of up to Rs2k on Classic 350/Twins and up to Rs3k on Bullet models. BJAUT has taken price hike for Dominar by Rs4k. HMSI too is going to take price hike of up to Rs2k across all models from beginning of October.

## CV: Gradual pickup in financing activity to revive demand

- **Macro hindrances continue to dampen MHCVs sales-** Demand for new MHCV continue to remain muted led by i) slow pickup in business operations ii) higher BS6 cost iii) stringent financing and iv) unavailability of return freight. However, there has been some pick-up in demand for ICVs, automotive carriers (2W/PVs) and increase in exports activity.
- **Gradual pickup in financing activity to help new demand-** Our interaction with fleet owners indicate increase in recovery rate from transporters (who

*It is important for OEMs to maximize production and increase volumes; this will also keep government revenue healthy. The industry needs the support, we eagerly await reduction in GST and also the scrappage policy.*

**Kenichi Ayukawa, MD & CEO-MSIL**

*Infra investment is extremely important for economy and the growth of CV industry is directly linked to economic improvement. It will take 2-3 years for us to reach 2018-19 levels.*

**Vinod Aggarwal, Director & CEO-VECV**

opted for moratorium) since last few weeks. This has increased financier's confidence on the transport industry. However, ~15% of the transporters are still expected to default.

- **Increase in freight rates and stable operating costs to support margins-** Fleet rates during September increased by 10-15% MoM which have partially offset the impact of higher fuel cost and unavailability of return load. Also, with availability of drivers/helpers operations are now smooth.
- **After the muted demand in September due to seasonal factors, we believe LCV is all set to clock in higher growth** in Q3 led by i) strong agri sentiments in the rural ii) higher E-commerce activity and iii) resumption of local businesses in tier2/3 region.
- AL has received **positive response for new launch 'Bada Dost'** which is going to compete with MM Bolero pickup, Tata Intra and Eicher Pro. We expect AL's market share to increase to 16-18% v/s (8-9% currently) in LCV segment.

### Tractor: Supply yet to match up the expected demand

- **Higher inquiries for tractors continued during the month (+10-15% YoY)** led by i) healthy monsoon (8-10% above long period average) ii) higher farm output (5-7% YoY) iii) higher procurements by the government across major states iv) strong cash flows with farmers (direct payment by government).
- **We believe growth momentum in tractors will continue for next 2-3 months as strong demand sentiment is backed by better financial support such as** i) higher finance penetration (~90-95%) ii) lower finance rates by banks such as HDFC, ICICI, etc (7-9% v/s 10-12% normally) and iii) lower moratorium rate (only ~10% farmers have opted for moratorium).
- **Inventory still not enough to match up with the demand-** Muted demand in September helped OEMs ramp up supplies to some extent but it is still not sufficient to match expected robust demand for the coming months. Current inventory level increased to 3-4 weeks (v/s 2-3 weeks in Aug'20).
- **Our channel check suggests MM to gain market share by 2-3%** during festive season led by i) better inventory management (inventory at 4-5 weeks' v/s 3-4 weeks for industry) ii) better financing schemes (interest rate as low as ~6%) iii) Positive response for XP+ series in key regions.

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Exhibit 3: Valuation Summary

Company Names	Rating	CMP (Rs)	TP (Rs)	Sales (Rs bn)				EBITDA (Rs bn)				PAT (Rs bn)				EPS (Rs)				RoE (%)				PE (x)			
				FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E
Ashok Leyland	BUY	75	76	174.7	164.7	196.4	219.0	11.7	12.4	18.0	19.0	3.4	4.3	9.4	8.8	1.2	1.5	3.2	3.0	4.4	5.9	11.9	10.4	64.3	50.8	23.5	25.0
Bharat Forge	HOLD	448	401	80.6	75.4	92.1	101.8	11.1	12.2	17.1	20.0	4.1	5.8	9.4	11.3	8.8	12.4	20.3	24.3	7.8	10.6	15.5	16.2	50.8	36.1	22.1	18.4
Bajaj Auto	Hold	2,901	2,713	299.2	247.4	286.3	307.3	51.0	39.4	46.5	48.6	54.4	44.2	52.1	53.1	188.1	152.9	180.1	183.3	26.1	21.5	23.6	22.5	15.4	19.0	16.1	15.8
CEAT	Acc	1,007	951	67.8	63.0	72.5	84.1	7.2	5.7	7.7	9.8	2.6	1.4	2.4	3.3	64.5	34.7	59.5	82.5	9.2	4.8	7.8	10.1	15.6	29.1	16.9	12.2
Eicher Motors	Acc	2,196	2,287	91.5	89.0	106.7	119.7	21.8	20.3	27.7	32.4	18.3	16.0	21.8	25.7	669.9	586.3	798.9	941.9	19.3	15.1	18.0	18.2	3.3	3.7	2.7	2.3
Exide Industries	BUY	164	183	98.6	102.1	112.7	121.4	13.6	14.6	16.4	17.6	8.4	8.5	9.6	10.6	9.9	10.0	11.3	12.5	13.7	13.1	13.7	14.0	16.5	16.3	14.5	13.1
Hero Motocorp	Acc	3,177	3,044	288.4	297.3	337.4	360.9	39.6	39.6	48.1	51.7	31.0	28.8	37.2	39.6	154.6	144.1	185.9	197.6	22.9	19.7	23.4	22.4	20.5	22.0	17.1	16.1
Mahindra & Mahindra	BUY	612	703	454.9	433.1	507.5	574.9	58.0	50.5	63.0	73.4	21.9	32.9	40.7	47.6	18.4	27.6	34.1	39.9	6.4	9.3	10.7	11.5	33.3	22.2	17.9	15.3
Maruti Suzuki	BUY	6,739	6,858	756.1	759.4	848.6	917.1	73.0	80.6	103.2	122.4	56.5	57.8	81.8	95.1	187.1	191.2	270.7	314.9	11.9	11.7	15.8	17.1	36.0	35.2	24.9	21.4
Motherson Sumi	BUY	117	125	635.4	604.7	710.7	791.5	52.0	39.0	64.0	73.8	11.7	8.1	19.0	24.9	3.7	2.6	6.0	7.9	10.4	6.8	14.9	17.4	31.4	45.6	19.3	14.8
Tata Motors	HOLD	132	108	2,610.7	2,585.1	2,844.0	3,190.7	239.1	237.9	333.8	379.6	-90.9	36.6	116.4	127.0	-25.3	10.2	32.4	35.3	-14.8	5.6	16.0	15.0	-5.2	13.0	4.1	3.7
TVS Motors	Sell	471	365	164.2	158.1	179.2	193.6	13.5	13.0	16.7	18.0	6.2	5.7	8.4	9.4	13.0	12.1	17.7	19.9	17.7	15.1	19.5	18.8	36.2	38.9	26.5	23.7

Source: Company, PL

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	BUY	76	61
2	Bajaj Auto	Hold	2,713	2,985
3	Bharat Forge	Hold	401	436
4	CEAT	Accumulate	951	845
5	Eicher Motors	Accumulate	22,869	21,673
6	Exide Industries	BUY	183	155
7	Hero Motocorp	Accumulate	3,044	2,804
8	Mahindra & Mahindra	BUY	703	600
9	Maruti Suzuki	BUY	6,858	6,192
10	Motherson Sumi Systems	BUY	125	107
11	Tata Motors	Hold	108	105
12	TVS Motors	Sell	365	402

**PL's Recommendation Nomenclature**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly

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