

October 7, 2022

## OEMs to lead growth charge in auto space for Q2FY23

New launches in the SUV space, QoQ improvement in vehicle wholesale volumes amid improving supply chain dynamics, affordable launch in the premium 2-W space by Royal Enfield (Hunter 350 cc), continued decline in key raw material prices and pick-up in electrification trend including ordering activity in the electric bus segment were key highlights for Q2FY23E. Total industry volumes in Q2FY23 are expected to increase ~7% QoQ led by the robust performance in the PV, CV space, which grew >10% QoQ. With management commentary guiding RM benefits to accrue from H2FY23, we expect gross margins to bottom out and marginally improve in the range of 20-50 bps QoQ for our coverage this quarter, given the magnitude of RM price decline (metals, plastics down 15-20% QoQ). We expect our coverage universe [ex-Tata Motors (TaMo)] to report 10% QoQ sales growth & 80 bps QoQ margin expansion to 11.8% with PAT expected to grow at 33% QoQ. Key outliers for Q2FY23 are seen as Ashok Leyland, M&M and Maruti Suzuki.

### Healthy broad based QoQ growth across most OEMs

On the volume front, in the 2-W space, volumes at industry leader Hero MotoCorp for the quarter were at 14.3 lakh units, up 2.7% QoQ while the same in the premium segment i.e. Royal Enfield from Eicher Motors was at 2.1 lakh units, up 11% QoQ. For Bajaj Auto, total volumes for the quarter were up 23.3% QoQ at 11.5 lakh units amid improved supply chain dynamics. In the PV domain, total volumes at Maruti Suzuki came in healthy at 5.2 lakh units, up 10.6% QoQ while total automotive volumes at M&M were at 1.8 lakh units, up 17.1% QoQ. In the CV space, volumes at Ashok Leyland came in healthy at 45,295 units, up 14.2% QoQ with stable product mix with M&HCV to LCV ratio at 61:39. In the tractor space, in the seasonally weak quarter, sales volumes at M&M were at 0.94 lakh units, down 21% QoQ while same for Escorts was at 23,703 units (down 11.5% QoQ). In the auto OEM space (ex-Tata Motors), we expect sales to grow 12% QoQ with 90 bps expansion in EBITDA margins & consequent PAT growth seen at 39% QoQ.

### Marginally muted show seen for ancillary pack

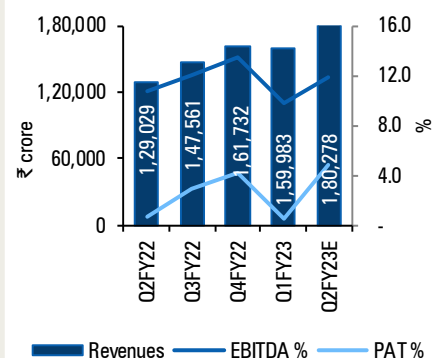
In the ancillary space, we expect sales to de-grow 1% QoQ with 60 bps expansion in EBITDA margins and consequent PAT remaining largely flat YoY. Muted show in the ancillary space is primarily driven by somewhat muted prospects in the export markets given the macro uncertainty. However, domestic oriented Uno Minda is expected to report healthy performance in Q2FY23 primarily tracking good volume growth witnessed in the PV space & persistent kit value increase amid vehicle premiumisation.

Exhibit 1: Estimates for Q2FY23E (₹ crore)

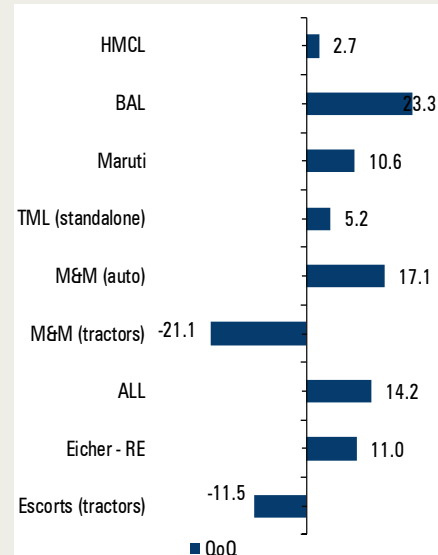
	Revenue Change (%)			EBITDA Change (%)			PAT Change (%)		
	Q2FY23E	YoY	QoQ	Q2FY23E	YoY	QoQ	Q2FY23E	YoY	QoQ
Apollo Tyres	5,842.3	15.1	(1.7)	690.5	8.2	0.1	174.2	0.2	(8.8)
Ashok Leyland	8,330.8	86.9	15.3	548.8	307.4	71.3	228.9	LP	236.6
Bajaj Auto	10,857.8	23.9	35.6	1,905.3	36.0	46.9	1,608.6	26.2	37.1
Balkrishna Ind.	2,522.3	23.1	(4.7)	503.2	(3.2)	10.5	349.4	(7.4)	9.3
Bharat Forge	1,742.2	8.4	(1.0)	425.7	(12.2)	(2.1)	232.0	(25.6)	(4.8)
Eicher Motors	3,374.9	50.0	(0.7)	788.1	67.7	(5.2)	588.1	57.7	(3.7)
Escorts	1,843.2	10.9	(8.5)	165.9	(21.0)	(17.7)	150.1	(15.1)	1.8
Hero MotoCorp	8,837.2	4.5	5.3	1,018.7	(4.4)	8.3	691.0	(13.0)	10.7
M&M	20,815.9	56.4	6.1	2,542.5	53.2	8.6	2,116.9	47.9	48.0
Maruti Suzuki	29,831.1	45.2	12.6	2,490.3	191.3	30.2	1,656.7	248.8	63.5
Uno Minda	2,709.4	28.2	6.0	291.3	27.8	9.6	143.1	51.1	3.1
Tata Motors	83,570.9	36.2	16.2	10,037.3	62.7	70.9	851.7	LP	LP
<b>Total (ex-TaMo)</b>	<b>96,707.1</b>	<b>37.6</b>	<b>9.8</b>	<b>11,370.3</b>	<b>48.3</b>	<b>17.3</b>	<b>7,939.0</b>	<b>47.0</b>	<b>33.2</b>

Source: Company, ICICI Direct Research; LP = Loss to Profit, PL = Profit to Loss, NM = Not meaningful/absurd

### Topline & Profitability (Coverage Universe)



### Key players volume growth for Q2FY23 (%)



### Average commodity price movement (₹/kg)

	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)
Steel (CRC)	64	77	-17.0	77	-16.4
Aluminium	212	217	-2.1	251	-15.4
Rubber	163	173	-5.8	174	-5.9
Plastics	122	144	-15.0	153	-20.0

### Average currency movement against rupee

	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)
USD/INR	79.8	74.1	7.7	77.3	3.3
EUR/INR	80.3	87.3	-8.0	82.2	-2.3
GBP/INR	93.9	102.1	-8.0	97.0	-3.2
JPY/INR	0.6	0.7	-14.3	0.6	-3.0

### Top Picks

Ashok Leyland  
Mahindra & Mahindra  
Maruti Suzuki

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**Exhibit 2: Company Specific view - OEMs**

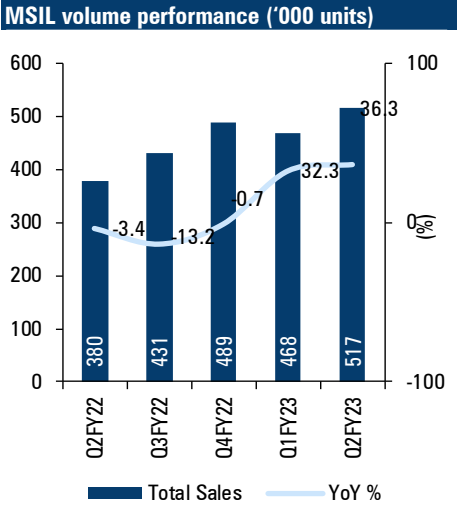
Company	Remarks
Ashok Leyland (ALL)	ALL is expected to report a robust performance in Q2FY23 amid 14% sequential rise in volumes for the quarter at 45,295 units. M&HCV: LCV ratio for the quarter was at 61:39 vs. 63:37 in Q1FY23. With 1% QoQ rise in ASPs at ₹ 18.4 lakh/unit, net sales at ALL are seen at ₹ 8,331 crore (up 15.3% QoQ). With improving gross margins amid decline in key RM prices and operating leverage at play, EBITDA & EBITDA margins for the quarter are seen at ₹ 549 crore, 6.6% (up 220 bps QoQ). Consequently, PAT is seen at ₹ 229 crore vs. ₹ 68 crore in Q1FY23 and loss reported in Q2FY22
Bajaj Auto (BAL)	BAL is expected to report a robust performance in Q2FY23 with total volumes up 23.3% QoQ at 11.5 lakh units amid improved supply chain dynamics. Export volumes, however, were down 21.4% QoQ amid challenging macros with exports share in volumes pegged at 40% vs. 62% in Q1FY23. The 3-W share in volume mix improved ~200 bps QoQ to 11%, leading to jump in blended ASPs. For the quarter, we expect BAL to report net sales of ₹ 10,858 crore, up 36% QoQ. EBITDA in Q2FY23 is expected at ₹ 1,905 crore with EBITDA margins at 17.5%, up 130 bps QoQ. Consequent PAT for the quarter is expected at ₹ 1,609 crore, up 37% QoQ
Eicher Motors (EML)	EML is expected to report a steady performance in Q2FY23. Royal Enfield (RE) volumes for the quarter came in at 2.1 lakh units, up 11% QoQ with product mix inclined more towards <350 cc segment given the robust response to Hunter 350. Share of >350cc motorcycles in the total sales volume for Q2FY23 was at 12% vs.17% as the usual trend. Consequent consolidated net sales for Q2FY23 are expected at ₹ 3,375 crore, down 0.7% QoQ amid 6.5% drop in ASPs at ₹ 1.6 lakh/unit. EBITDA in Q2FY23 is expected at ₹ 788 crore with EBITDA margins at 23.4%, down 110 bps QoQ. Consolidated PAT for Q2FY23 is expected at ₹ 588 crore, down 3.7% QoQ
Escorts (Escorts)	Escorts is expected to report a muted performance in Q2FY23. Total tractor sales for the quarter came in at 23,703 units (down 11.5% QoQ) while construction equipment volumes were at 917 units (down 5% QoQ). Ensuing net sales for Q2FY23 are expected at ₹ 1,843 crore, down 8.5% QoQ. EBITDA in Q2FY23 is expected at ₹ 166 crore with corresponding EBITDA margins at 9%, down 100 bps QoQ, tracking negative operating leverage. Consequent PAT is expected at ₹ 150 crore, up 1.8% QoQ, supported by higher other income on account of high surplus cash on balance sheet
Hero MotoCorp (HMCL)	HMCL is expected to report a steady performance in Q2FY23 with total 2-W volumes increasing 2.7% QoQ to 14.3 lakh units. With ASPs expected to increase 2.5% QoQ to ₹ 61,879/unit, we expect net sales to increase 5.3% QoQ to ₹ 8,837 crore. EBITDA for Q2FY23 is expected at ₹ 1,019 crore with EBITDA margins at 11.5%, up 30 bps QoQ. Consequent PAT in Q2FY23 is expected at ₹ 691 crore, up 10.7% QoQ. For HMCL, we have built in flat gross margins on a QoQ basis
M&M	M&M is expected to report a robust performance in Q2FY23. Total tractor sales volumes for the quarter were at 0.94 lakh units, down 21% QoQ while automotive volumes were up 17.1% QoQ at 1.8 lakh units. Consequent net sales for Q2FY23 are seen up 6.1% QoQ to ₹ 20,816 crore with automotive ASPs seen at ~₹ 8.3 lakh/unit (up 4.0% QoQ) and tractor ASPs seen at ₹ 5.7 lakh/unit (up 0.5% QoQ). Standalone EBITDA for Q2FY23 is expected at ₹ 2,543 crore with EBITDA margins at 12.2%, up 30 bps QoQ. Standalone PAT for Q2FY22 is seen at ₹ 2,117 crore, up 48% QoQ, supported by higher other income (dividend from Tech Mahindra)
Maruti Suzuki (MSIL)	MSIL is expected to report a robust performance in Q2FY23. Net sales for the quarter is expected at ₹ 29,831 crore, 12.6% QoQ amid 10.6% QoQ growth in volumes at 5.2 lakh units & 1.8% QoQ rise in ASPs to ₹ 5.5 lakh/unit. Product mix for Q2FY23 came in adverse with share of UVs in total volumes at 16% vs.17.3% in Q1FY23. EBITDA for the quarter is expected at ₹ 2,490 crore with EBITDA margins at 8.3%, up 110 bps QoQ. Consequent, PAT is expected at ₹ 1,657 crore vs. ₹ 1,013 crore in Q1FY23. We expect the company to benefit from RM price decline & INR/JPY appreciation
Tata Motors (TML)	TML is expected to report a sequentially improved performance in Q2FY23 primarily tracking enhanced scale of operations at JLR. Total sales volume at Indian operations were at 2.4 lakh units, up 5% QoQ with JLR sales volume anticipated at 1.03 lakh units, up 24.5% QoQ. On a consolidated basis, for Q2FY23, we expect TML to report net sales of ₹ 83,571 crore, up 16.2% QoQ. EBITDA in Q2FY23 is expected at ₹ 10,037 crore with corresponding EBITDA margins at 12%, up 380 bps QoQ. JLR's EBITDA margins are expected at 14%. At the PAT level, we expect the company to report profit of ₹ 852 crore in Q2FY23 vs. loss in Q2FY22 and Q1FY23. We have built in ~₹ 1,000 crore exceptional gains for the company in Q2FY23 on account of appreciation of rupee against GBP and consequent impact on JLR's debt

Source: Company, ICICI Direct Research

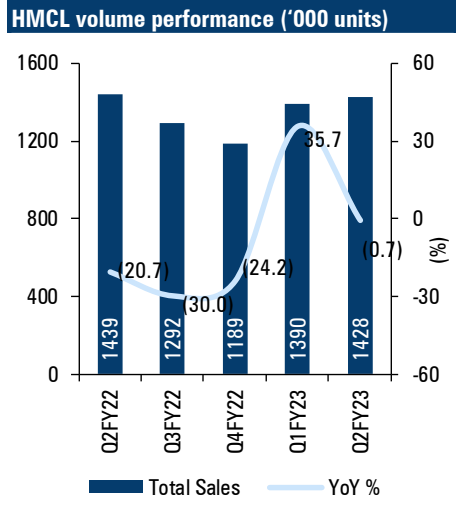
**Exhibit 3: Company Specific view - Ancillaries**

Company	Remarks
Minda Industries (MIL)	MIL is expected to report a healthy performance in Q2FY23 primarily tracking good volume growth witnessed in the PV space and persistent kit value increase amid vehicle premiumisation. Net sales on a consolidated basis are expected at ₹ 2,709 crore, up 6% QoQ. EBITDA for the quarter is expected at ₹ 291 crore with corresponding EBITDA margins at 10.8%, up 40 bps QoQ largely factoring in operating leverage gains. PAT for Q2FY23 is expected at ₹ 143 crore, up 3% QoQ
Apollo Tyres (ATL)	ATL is expected to report a steady performance in Q2FY23 tracking healthy OEM demand in domestic operations and stable prospects at its European arm. Standalone sales for the quarter are seen at ₹ 4,234 crore, down 5% QoQ with EBITDA margins at 9.5% (down 20 bps QoQ). On a consolidated basis, net sales are expected at ₹ 5,842 crore, down 1.7% QoQ. EBITDA in Q2FY23 is expected at ₹ 691 crore with EBITDA margins at 11.8%, up 20 bps QoQ. Ensuing PAT for the quarter is expected at ₹ 174 crore, down 8.8% QoQ
Bharat Forge (BFL)	BFL is expected to report a marginal dip in performance on a QoQ basis tracking a decline in exports amid macro instability and steady growth in domestic sales across segments viz. automobile & industrial among others. On a standalone basis, we expect the company to report net sales of ₹ 1,742 crore, down 1% QoQ. EBITDA for Q2FY23 is seen at ₹ 426 crore with corresponding EBITDA margins at 24.4%, down 30 bps QoQ. Standalone PAT is expected at ₹ 232 crore, down 5% QoQ
Balkrishna Industries (BIL)	BIL is expected to report a steady performance in Q2FY23 amid a QoQ drop in volumes and partial benefits of lower RM costs and other overhead expenses. Consequent net sales are expected at ₹ 2,552 crore, down 4.7% QoQ amid 8% sequential decline in sales volume at 76,385 tonnes. EBITDA in Q2FY23 is expected at ₹ 503 crore with corresponding EBITDA margins at 20%, up 280 bps QoQ. Ensuing PAT for Q2FY23 is expected at ₹ 349 crore, up 9.3% QoQ. (aided by partial margin recovery)

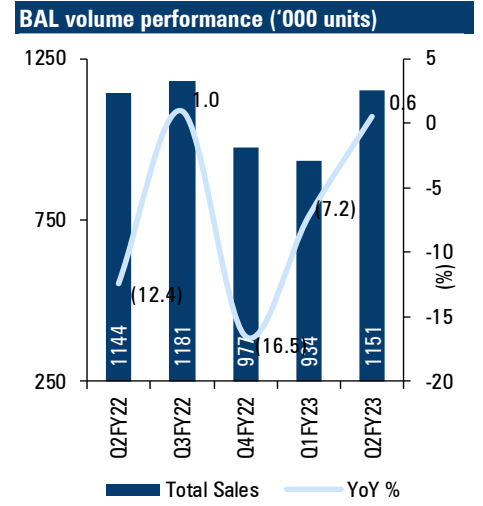
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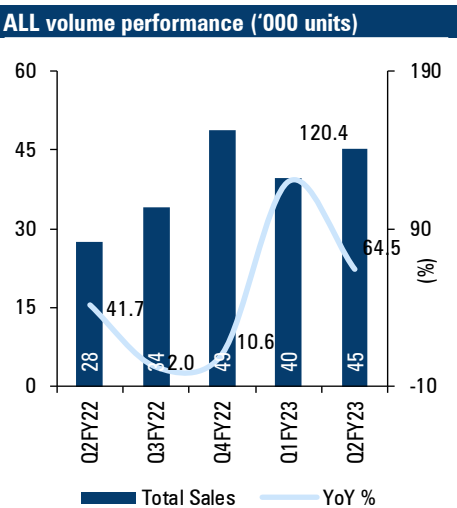
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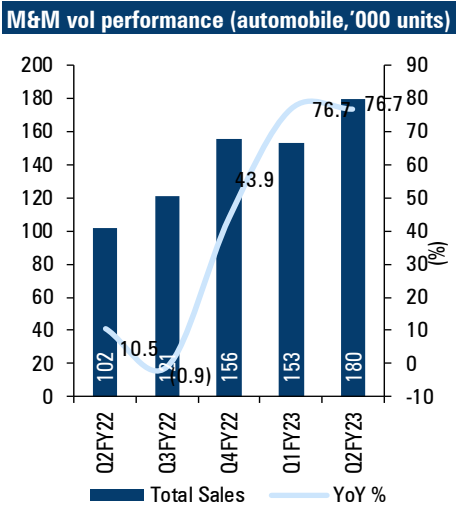
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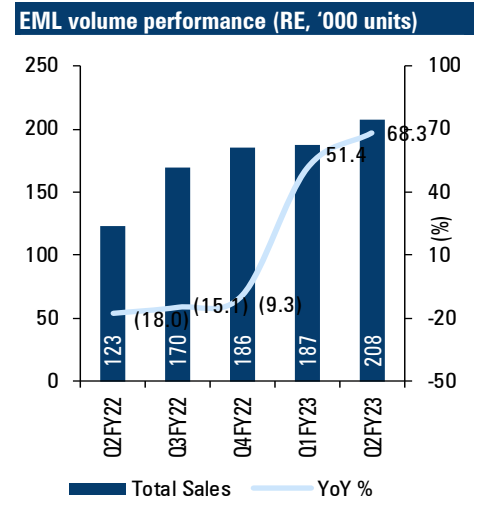
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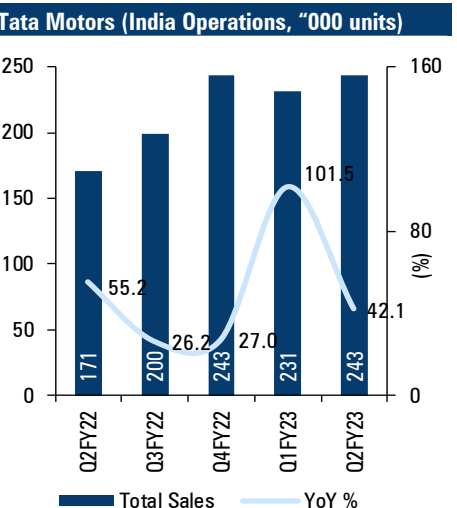
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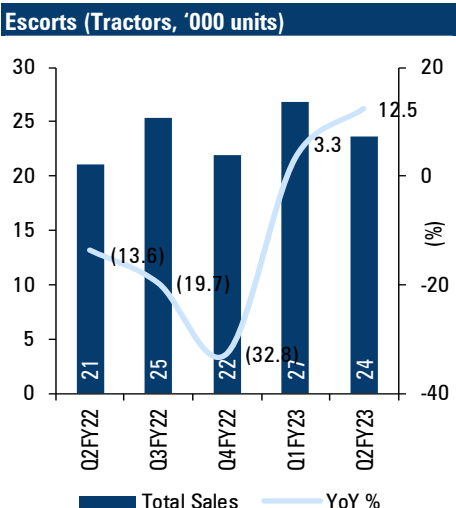
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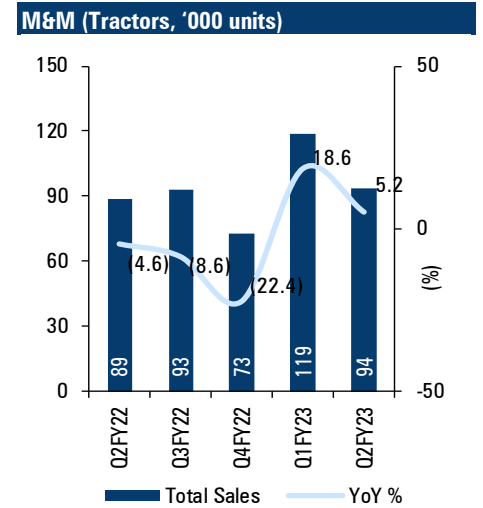
Source: Company, ICICI Direct Research



Source: Company, ICICI Direct Research



Source: Company, ICICI Direct Research



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Exhibit 4: ICICI Direct coverage universe (Auto & Auto Ancillary)

Sector / Company	CMP	TP	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	(₹)			FY22P	FY23E	FY24E	FY22P	FY23E	FY24E	FY22P	FY23E	FY24E	FY22P	FY23E	FY24E	FY22P	FY23E	FY24E
Apollo Tyre (APOTYR)	273	335	Buy	17,305	10.1	16.5	25.0	27.1	16.5	10.9	8.5	6.6	5.0	6.3	9.4	13.0	5.4	8.4	11.7
Ashok Leyland (ASHLEY)	156	180	Buy	45,707	1.8	1.7	4.8	84.6	91.3	32.7	47.1	28.7	16.3	2.1	7.6	17.7	0.2	6.5	17.1
Bajaj Auto (BAAUTO)	3,640	4,180	Hold	1,05,331	173.4	218.4	247.2	21.0	16.7	14.7	16.0	11.9	10.4	18.4	27.1	29.3	17.6	24.5	26.3
Balkrishna Ind. (BALIND)	1,914	2,550	Buy	37,001	73.0	65.3	98.3	26.2	29.3	19.5	19.6	20.5	13.5	15.9	13.1	19.7	20.4	16.0	20.4
Bharat Forge (BHAFOR)	760	900	Buy	35,383	23.1	19.8	28.3	32.8	38.4	26.9	19.1	18.6	14.6	9.6	9.2	12.2	15.2	12.7	16.1
Eicher Motors (EICMOT)	3,500	4,170	Buy	95,655	61.3	101.8	122.0	57.1	34.4	28.7	40.2	24.3	20.3	13.3	20.4	20.9	13.3	19.3	20.1
Escorts Kubota (ESCORT)	2,125	2,390	Buy	28,037	58.0	56.3	70.6	36.6	37.7	30.1	24.4	25.1	19.8	10.4	8.8	10.1	9.7	8.7	10.0
Hero Moto (HERHON)	2,695	2,925	Hold	53,819	123.8	137.3	164.7	21.8	19.6	16.4	13.5	11.9	10.0	16.3	18.4	21.1	15.7	16.6	19.0
M&M (MAHMAH)	1,260	1,590	Buy	1,56,643	41.4	48.7	60.6	30.5	25.9	20.8	21.5	17.3	13.6	9.3	11.4	13.9	13.1	13.5	14.9
Maruti Suzuki (MARUTI)	8,830	10,000	Buy	2,66,737	124.7	236.8	333.3	70.8	37.3	26.5	39.7	22.3	16.2	5.1	11.5	15.2	7.0	12.1	15.3
Uno Minda (MININD)	563	650	Buy	32,190	6.2	10.0	13.6	90.5	56.2	41.4	37.0	28.4	22.7	10.2	13.4	16.9	10.3	14.5	16.7
Tata Motors (TATMOT)	415	530	Buy	1,58,904	-29.9	-9.5	17.9	-13.9	-43.5	23.2	6.9	5.7	4.2	4.8	8.2	14.5	-23.5	-8.1	13.2

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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