

January 6, 2023

Margin recovery to take centre stage in Q3FY23...

Robust order book across PV OEMs, strong festive led retails across segments, inventory de-stocking amid calendar year change and continued correction in commodity prices were some key highlights for Q3FY23. Total industry volumes in Q3FY23 are expected to decline ~10% QoQ primarily led by the muted performance in the 2-W & PV space. Considering the magnitude of RM price decline (metals, plastics down ~20%, ~50%, respectively, from Q1FY23) & quarterly time lag in its impact on P&L amid management commentary guiding RM benefits to accrue from H2FY23, we expect gross margins to improve in range of 100-250 bps QoQ for our coverage in Q3. We expect our coverage universe {ex-Tata Motors (TAMO)} to report 3% QoQ sales de-growth (amid ~10% volume drop) & ~110 bps QoQ margin expansion to 12.9% with PAT expected to de-grow 4% QoQ (impacted by high other income in base quarter). This time around auto ancillary space is seen outperforming the OEM pack (led by better margin profile). Ashok Leyland, Apollo Tyres are seen as key outliers for Q3FY23.

Steady broad based topline, PAT performance across OEMs

On the volume front, in the 2-W space, volumes at industry leader Hero MotoCorp for the quarter were at 12.4 lakh units, down 13.2% QoQ. The same in the premium segment i.e. Royal Enfield at Eicher Motors was at 2.2 lakh units, up 6.6% QoQ. For Bajaj Auto, total volumes for the quarter were down 14.6% QoQ at 9.8 lakh units amid muted domestic sales. In the PV domain, total volumes at Maruti Suzuki came in at 4.7 lakh units, down 10% QoQ while total automotive volumes at M&M were at 1.76 lakh units, down 2% QoQ. In the CV space, volumes at Ashok Leyland came in healthy at 47,562 units, up 5% QoQ with a favourable product mix with M&HCV to LCV ratio at 65:35. In the tractor space, in the seasonally strong quarter, sales volumes at M&M were at 1.05 lakh units, up 13.1% QoQ while the same for Escorts was at 28,025 units, up 18.2% QoQ. In the auto OEM space (ex-TAMO), we expect sales to de-grow 3% QoQ with ~100 bps expansion in EBITDA margins and consequent PAT de-growth seen at 4% QoQ.

Positive margin show seen for ancillary pack

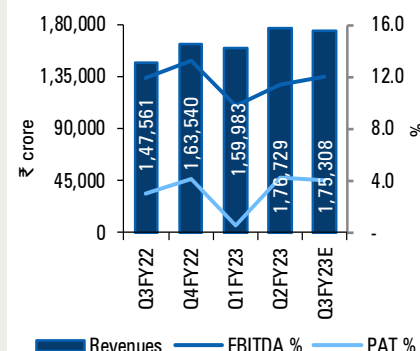
In the ancillary space, we expect sales to de-grow 2% QoQ with ~120 bps expansion in EBITDA margins and consequent PAT de-growth 2% QoQ. The muted show in topline was primarily driven by QoQ volume decline in the domestic market and muted export sentiments shared by management. However, Apollo Tyres is expected to report healthy performance in Q3FY23 primarily tracking QoQ uptick in margin profile in domestic space with European operation retaining its high double-digit margin profile.

Exhibit 1: Estimates for Q3FY23E (₹ crore)

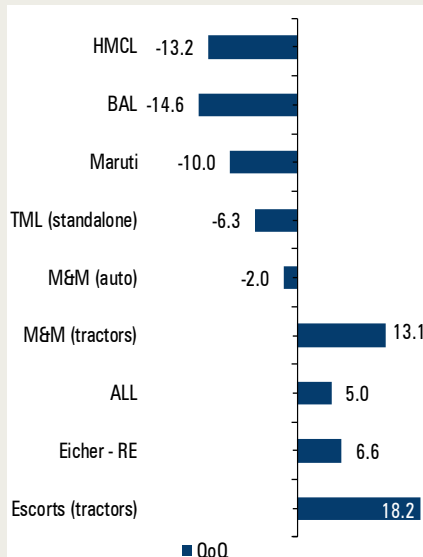
	Revenue Change (%)			EBITDA Change (%)			PAT Change (%)		
	Q3FY23E	YoY	QoQ	Q3FY23E	YoY	QoQ	Q3FY23E	YoY	QoQ
Apollo Tyres	6,365.7	11.5	6.9	920.5	23.9	29.3	347.6	55.2	79.2
Ashok Leyland	9,025.2	63.1	9.2	736.5	228.9	37.1	365.2	NM	83.2
Bajaj Auto	8,951.7	(0.8)	(12.3)	1,609.4	17.3	(8.5)	1,377.6	13.5	(10.0)
Balkrishna Ind.	2,345.4	15.5	(13.3)	367.9	(17.0)	(17.2)	261.5	(20.4)	(35.3)
Bharat Forge	1,827.8	14.1	(1.9)	464.7	13.9	2.6	261.3	(22.6)	(2.5)
Eicher Motors	3,482.8	20.9	(1.0)	863.9	48.4	5.1	700.6	53.6	6.6
Escorts	2,239.9	14.4	18.9	235.2	(11.2)	54.0	204.4	1.4	133.1
Hero MotoCorp	7,798.9	(1.1)	(14.1)	935.6	(2.5)	(9.9)	644.0	(6.1)	(10.1)
M&M	21,494.9	41.1	3.1	2,901.3	60.7	16.2	1,792.4	32.5	(14.2)
Maruti Suzuki	28,280.9	21.7	(5.5)	2,823.5	81.1	2.0	1,940.0	91.9	(5.9)
Uno Minda	2,633.0	20.7	(8.5)	296.2	25.9	(7.0)	143.6	41.7	(15.6)
Tata Motors	80,861.9	12.0	1.6	8,931.2	(1.4)	2.4	(981.2)	35.3	(3.8)
Total	1,75,307.8	17.3	-0.8	21,085.9	19.4	4.3	7,056.8	60.3	-5.1

Source: Company, ICICI Direct Research; NM = Not meaningful/absurd

Topline & Profitability (Coverage Universe)



Key players volume growth for Q3FY23 (%)



Average commodity price movement (₹/kg)

	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)
Steel (CRC)	61	74	-17.4	64	-4.4
Aluminium	210	230	-8.5	212	-0.9
Rubber	147	177	-16.6	163	-9.8
Plastics	81	169	-52.0	122	-33.4

Average currency movement against rupee

	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)
USD/INR	82.2	75.0	9.7	79.8	3.0
EUR/INR	84.0	85.3	-1.5	80.1	4.9
GBP/INR	96.6	100.6	-4.0	93.6	3.1
JPY/INR	0.6	0.7	-11.3	0.6	0.9

Top Picks

Apollo Tyres
Ashok Leyland
Mahindra & Mahindra

Research Analyst

Shashank Kanodia, CFA
shashank.kanodia@icicisecurities.com

Raghvendra Goyal
raghvendra.goyal@icicisecurities.com

Exhibit 2: Company Specific view - OEMs

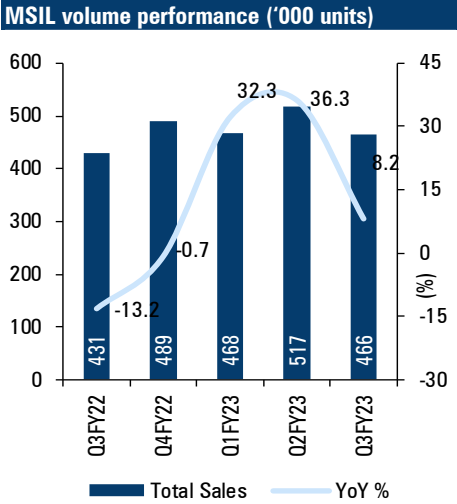
Company	Remarks
Ashok Leyland (ALL)	ALL is expected to lead the OEM pack and report a robust performance in Q3FY23 amid 5% sequential rise in volumes for the quarter at 47,562 units. M&HCV: LCV ratio for the quarter was at 65:35 vs. 61:39 in Q2FY23. With 4% QoQ rise in ASPs at ₹ 19 lakh/unit, net sales are seen at ₹ 9,025 crore (up 9.2% QoQ). With improving gross margins amid decline in key RM prices, EBITDA & EBITDA margins for the quarter are seen at ₹ 737 crore and 8.2% (up 166 bps QoQ), respectively. Ensuing PAT for Q3FY23 is seen at ₹ 365 crore vs. ₹ 199 crore in Q2FY23
Bajaj Auto (BAL)	BAL is expected to report a muted performance in Q3FY23 with total volumes down 14.6% QoQ at 9.8 lakh units. Export volumes were down 3.8% QoQ while domestic volumes were down 21.6% QoQ with exports share in volumes at 45% vs. 40% in Q2FY23. The 3-W share in volume mix improved ~200 bps QoQ to 13%, leading to a jump in blended ASPs (~3% QoQ). For the quarter, we expect BAL to report net sales of ₹ 8,952 crore, down 12.3% QoQ. EBITDA in Q3FY23 is expected at ₹ 1,609 crore with EBITDA margins at 18%, up 80 bps QoQ. Consequent PAT for the quarter is expected at ₹ 1,378 crore, down 10% QoQ. It is poised to benefit from rupee depreciation vs. US\$
Eicher Motors (EML)	EML is expected to report a healthy performance in Q3FY23. Royal Enfield (RE) volumes for the quarter came in at 2.2 lakh units, up 6.6% QoQ with product mix inclined more towards <350 cc segment amid greater share of Hunter 350 in portfolio. Share of >350 cc motorcycles in total sales volume for Q3FY23 was at 9% vs. 12% in Q2FY23. Consequent consolidated net sales for Q3FY23 are expected at ₹ 3,483 crore, down 1.0% QoQ amid 4% drop in ASPs at ₹ 1.55 lakh/unit. EBITDA in Q3FY23 is expected at ₹ 864 crore with EBITDA margins at 24.8%, up 145 bps QoQ (tracking operating leverage gains). Consolidated PAT for Q3FY23 is expected at ₹ 701 crore, up 7% QoQ
Escorts (Escorts)	Escorts is expected to report a healthy performance in Q3FY23. Total tractor sales for the quarter came in at 28,025 units (up 18.2% QoQ) while construction equipment volumes were at 1,209 units (up 31.8% QoQ). Ensuing net sales for Q3FY23 are expected at ₹ 2,240 crore, up 18.9% QoQ. EBITDA in Q3FY23 is expected at ₹ 235 crore with corresponding EBITDA margins at 10.5%, up 240 bps QoQ, tracking positive operating leverage and RM benefits. Consequent PAT is expected at ₹ 204 crore vs. ₹ 88 crore in Q2FY23 (one time exceptional loss booked in Q2FY23)
Hero MotoCorp (HMCL)	HMCL is expected to report a muted performance in Q3FY23 with total 2-W volumes declining 13.2% QoQ to 12.4 lakh units. With ASPs expected to decline 1% QoQ to ₹ 62,910/unit amid greater share of <110 cc in its product portfolio, consequently we expect net sales to decline 14% QoQ to ₹ 7,799 crore. EBITDA for Q3FY23 is expected at ₹ 936 crore with EBITDA margins at 12%, up 60 bps QoQ (gross margin benefits limited by negative operating leverage at play). Consequent PAT in Q3FY23 is expected at ₹ 644 crore, down 10% QoQ
Mahindra & Mahindra (M&M)	M&M is expected to report a robust performance in Q3FY23. Total tractor sales volumes for the quarter were at 1.05 lakh units, up 13.1% QoQ while automotive volumes were down 2% QoQ at 1.76 lakh units. Consequent net sales for Q3FY23 are seen up 3.1% QoQ to ₹ 21,495 crore with automotive ASPs seen at ~₹ 8.3 lakh/unit (up 1.5% QoQ) and tractor ASPs seen at ₹ 5.95 lakh/unit (up 0.5% QoQ). Standalone EBITDA for Q3FY23 is expected at ₹ 2,901 crore with EBITDA margins at 13.5%, up 150 bps QoQ. Standalone PAT for Q3FY22 is seen at ₹ 1,792 crore, down 14.2% QoQ, (Q2FY23 PAT included higher other income i.e. dividend from Tech Mahindra)
Maruti Suzuki (MSIL)	MSIL is expected to report a steady performance in Q3FY23. Net sales for the quarter are expected at ₹ 28,281 crore, down 5.5% QoQ amid 10% QoQ de-growth in volumes at 4.7 lakh units and 5% QoQ rise in ASPs to ₹ 5.8 lakh/unit. Product mix for Q3FY23 came in positive with share of UVs in total volumes mix at 24% vs. 19% in Q2FY23. EBITDA in Q3FY23 is expected at ₹ 2,824 crore with EBITDA margins at 10%, up 70 bps QoQ. Consequent PAT is expected at ₹ 1,940 crore vs. ₹ 2,062 crore in Q2FY23
Tata Motors (TML)	TML is expected to report a muted performance in Q3FY23 primarily tracking muted sales at JLR. Total sales volume at Indian operations were at 2.3 lakh units, down 6.3% QoQ with JLR sales volume anticipated at 88,101 lakh units, down 2% QoQ. On a consolidated basis for Q3FY23, we expect TML to report net sales of ₹ 80,862 crore, up 1.6% QoQ. EBITDA in Q3FY23 is expected at ₹ 8,931 crore with corresponding EBITDA margins at 11%, flat QoQ. JLR's EBITDA margins are expected at 11.5%. At the PAT level, we expect the company to report a loss of ₹ 981 crore in Q2FY23 vs. loss of ₹ 945 crore in Q2FY22

Source: Company, ICICI Direct Research

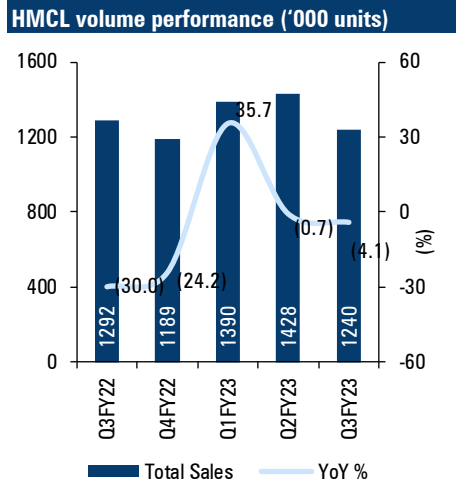
Exhibit 3: Company Specific view - Ancillaries

Company	Remarks
Uno Minda (MIL)	MIL is expected to report a muted performance in Q3FY23 primarily tracking muted QoQ wholesale dispatches in the PV & 2-W segment amid calendar year change. Net sales on a consolidated basis are expected at ₹ 2,633 crore, down 8.5% QoQ. EBITDA for the quarter is expected at ₹ 296 crore with corresponding EBITDA margins at 11.3%, up 20 bps QoQ with RM benefits negated by negative operating leverage. PAT for Q3FY23 is expected at ₹ 144 crore, down 15.6% QoQ
Apollo Tyres (ATL)	ATL is expected to report a robust performance in Q3 largely reaping the benefits of lower raw material prices. On the demand front, it is expected to be a steady quarter domestically while seasonal boost is expected at its European arm. Standalone sales in Q3FY23 are seen at ₹ 4,301 crore, flat QoQ with EBITDA margins at 12.8% (up 250 bps QoQ). On a consolidated basis, net sales are expected at ₹ 6,366 crore, up 6.9% QoQ. EBITDA in Q3FY23 is expected at ₹ 921 crore with EBITDA margins at 14.5%, up 250 bps QoQ. PAT for the quarter is expected at ₹ 348 crore, up 79% QoQ, the highest PAT clocked by it in the last eight quarters
Bharat Forge (BFL)	BFL is expected to report a steady performance on a QoQ basis tracking a marginal decline in exports amid macro instability and steady growth in domestic sales across segments namely automobile & industrial among others. On a standalone basis, we expect the company to report net sales of ₹ 1,828 crore, down 1.9% QoQ. EBITDA for Q3FY23 is seen at ₹ 465 crore with corresponding EBITDA margins at 25.4%, up 112 bps QoQ. Standalone PAT is expected at ₹ 261 crore, down 2.5% QoQ. BFL's commentary on defence & aerospace segments would be key monitorable from result
Balkrishna Industries (BIL)	BIL is expected to report a muted performance in Q3FY23 amid QoQ drop in volumes and high costs RM inventory on books. We expect the company to report a bottomed out performance in this quarter and steadily climb up the improved show, going forward. Consequent net sales are expected at ₹ 2,345 crore, down 13.3% QoQ amid 15% sequential decline in sales volume at 66,804 tonne. EBITDA in Q3FY23 is expected at ₹ 368 crore with corresponding EBITDA margins at 15.7%, down 75 bps QoQ. Ensuing PAT for Q3FY23 is expected at ₹ 262 crore, down 35.3% QoQ (forex gains in Q2FY23)

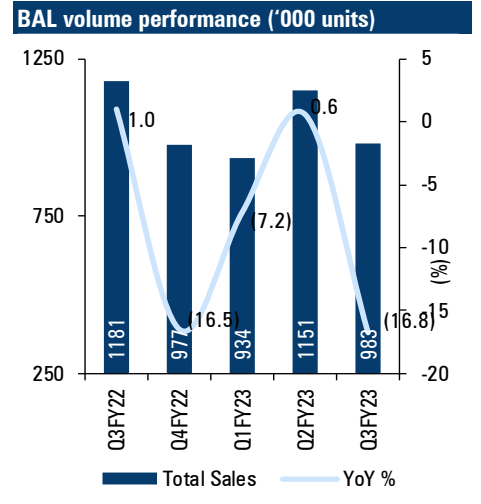
Source: Company, ICICI Direct Research



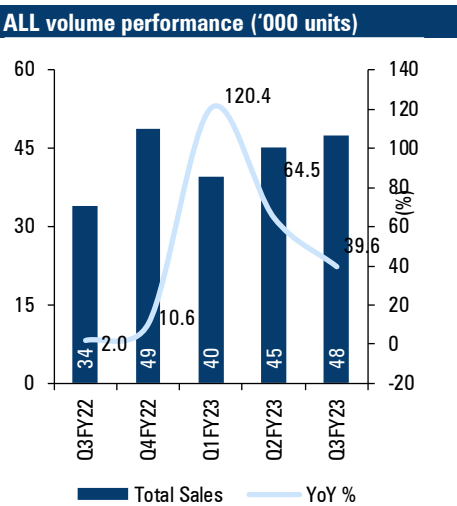
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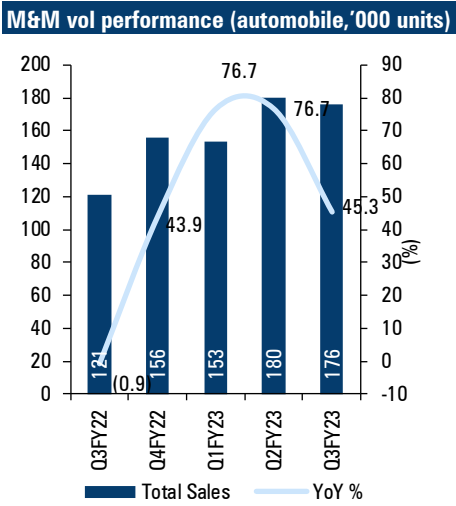
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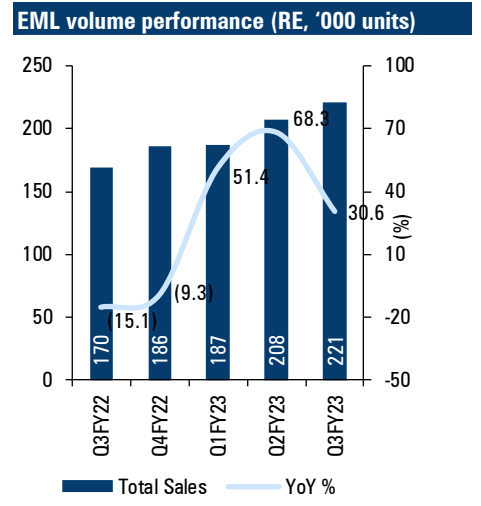
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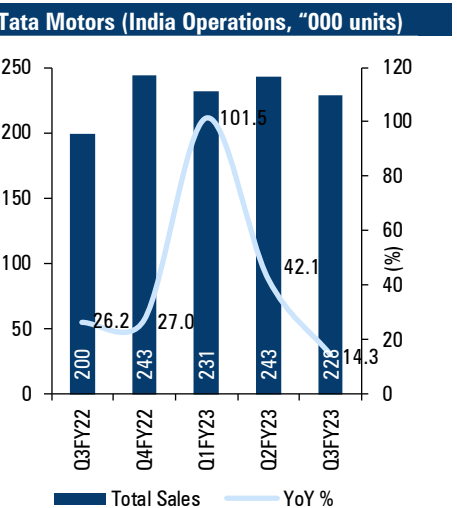
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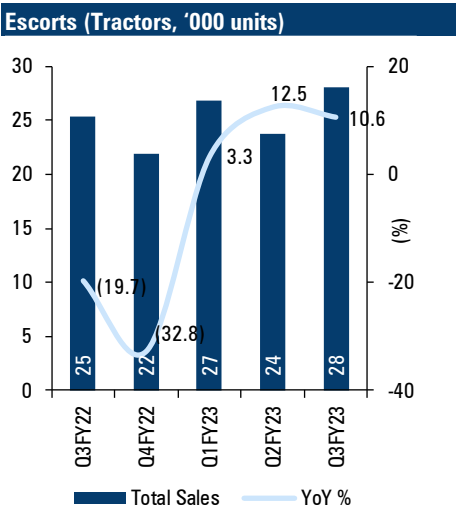
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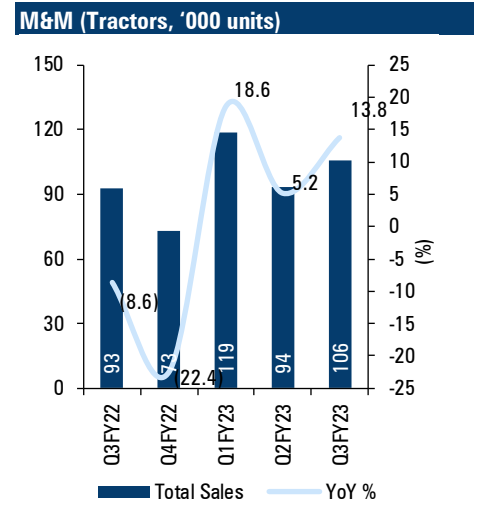
Source: Company, ICICI Direct Research



Source: Company, ICICI Direct Research



Source: Company, ICICI Direct Research



Source: Company, ICICI Direct Research

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 (%)		
	(₹)	(₹)			FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Apollo Tyre (APOTYR)	338	350	Buy	21,465	10.1	16.2	26.1	33.6	20.9	12.9	10.1	7.8	5.8	6.3	9.6	13.9	5.4	8.2	12.2
Ashok Leyland (ASHLEY)	148	185	Buy	43,321	1.8	2.7	5.8	80.2	55.3	25.6	44.7	21.4	13.4	2.1	11.5	20.9	0.2	10.0	20.0
Bajaj Auto (BAAUTO)	3,621	3,910	Hold	1,04,781	173.4	200.2	232.2	20.9	18.1	15.6	15.9	13.2	11.2	18.4	24.7	28.0	17.6	22.6	25.4
Balkrishna Ind. (BALIND)	2,177	2,200	Buy	42,085	73.0	72.4	100.1	29.8	30.1	21.7	22.2	23.5	15.3	15.9	12.5	19.9	20.4	17.6	20.7
Bharat Forge (BHAFOR)	880	1,050	Buy	40,970	23.1	17.5	28.2	38.0	50.2	31.2	21.9	23.3	16.9	9.6	8.4	12.6	15.2	11.4	16.4
Eicher Motors (EICMOT)	3,258	4,310	Buy	89,041	61.3	101.4	124.6	53.1	32.1	26.1	37.1	22.3	18.0	13.3	20.5	21.6	13.3	19.2	20.4
Escorts Kubota (ESCORT)	2,168	2,365	Buy	28,605	58.0	47.8	73.7	37.4	45.3	29.4	25.0	28.7	20.3	10.4	7.8	10.4	9.7	8.4	10.5
Hero Moto (HERHON)	2,767	2,910	Hold	55,257	123.8	138.0	178.2	22.3	20.1	15.5	13.9	11.8	9.3	16.3	19.4	23.9	15.7	16.8	20.6
M&M (MAHMAH)	1,253	1,590	Buy	1,55,773	41.4	54.7	72.0	30.3	22.9	17.4	21.4	15.1	11.4	9.3	13.0	16.2	13.1	15.4	17.1
Maruti Suzuki (MARUTI)	8,461	11,200	Buy	2,55,590	124.7	234.9	350.2	67.9	36.0	24.2	37.5	20.2	14.2	5.1	12.5	16.7	7.0	12.0	16.0
Uno Minda (MININD)	543	650	Buy	31,049	6.2	10.4	14.4	87.3	52.4	37.7	35.7	27.2	21.1	10.2	13.5	16.9	10.3	14.9	17.4
Tata Motors (TATMOT)	387	465	Hold	1,48,182	-29.9	-22.3	8.2	-13.0	-17.3	47.2	6.6	7.0	4.6	4.8	4.4	11.9	-23.5	-21.3	7.2

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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