ICICI direct Research

April 7, 2021

# Lower base aids topline; high input costs set to pinch

The auto industry continued to benefit from relatively healthy demand trends in the post-festive months, with a sharp sequential jump in the CV space being a particular highlight. Broad-based general positivity stayed intact as other segments (ex-3-W, buses) i.e. 2-W, PV and tractors, also performed well. For our auto and auto ancillary coverage universe, topline performance is expected to be robust in YoY terms amid double digit volume growth, BS-VI price hikes and base effect (Covid impacted Q4FY20). However, we expect the steep increase in commodity costs (metals, rubber, other crude derivatives & lead) over the past few months that did not come through in Q3FY21 financials to surface now. We expect our coverage universe (ex-Tata Motors) to report topline growth of 33% YoY (-1% QoQ) with EBITDA margins at 11.9% (down ~180 bps QoQ).

## OEM pack expected to outperform on strong volume offtake

On a YoY basis, volume growth was robust across OEMs on account of favourable base effect (latter half of March 2020 impacted by lockdown). QoQ performance trends are mixed on account of seasonally strong festive period in Q3FY21. Among 2-W, Royal Enfield volumes at Eicher Motors led the way (+25.6% YoY, 2.05 lakh units) followed by Bajaj Auto (+17.9%, 11.69 lakh units in total) and Hero MotoCorp (+17.5%, 15.68 lakh units). PV market leader Maruti Suzuki recorded 27.8% YoY growth to 4.92 lakh units while Tata Motors' combined volumes across standalone & JLR operations is expected to grow 42.1% YoY to 3.24 lakh units. M&M's total volumes (automotive and tractors) were up 33.3% YoY to 2.02 lakh units while pure play CV maker Ashok Leyland posted 73% YoY growth to 44,060 units. Escorts' tractor sales grew 62.1% YoY to 32,588 units. Our OEM coverage universe is seen posting 40.4% YoY, 9% QoQ growth in net sales accompanied by ~380 bps sequential drop in margins to ~11.5%.

## Upturn in user industries to aid ancillary performance

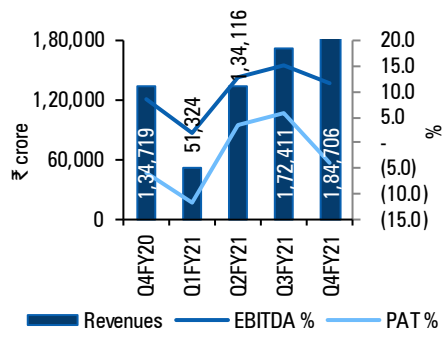
With a rebound in OEM sales adding to existing strength in aftermarket channel, ancillaries with high replacement exposure (battery, tyre players) are expected to do well in Q4FY21. Upturn in domestic & global CV cycle is seen lifting Bharat Forge's prospects while Minda Industries is expected to have benefited from a revival in key user industries, domestic 2-W, 4-W. Performance of key SMP subsidiary would be a monitorable for Motherson Sumi. Total topline growth for the auto ancillary pack is expected at 22.2% YoY, -3% QoQ amid ~160 bps QoQ decline in margin profile to 12.6%.

**Exhibit 1: Estimates for Q4FY21E (₹ crore)**

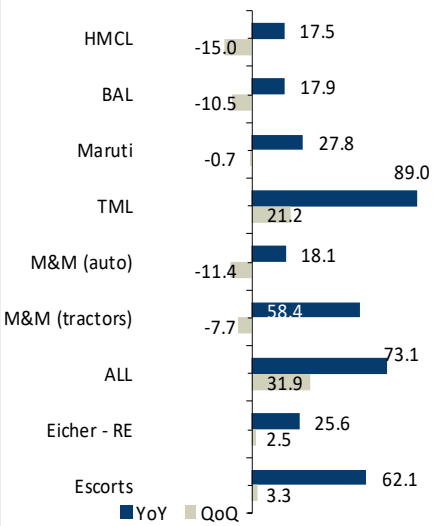
| | Revenue Change (%) | | | EBITDA Change (%) | | | PAT Change (%) | | |
|---|---|---|---|---|---|---|---|---|---|
| | Q4FY21E | YoY | QoQ | Q4FY21E | YoY | QoQ | Q4FY21E | YoY | QoQ |
| Apollo Tyres | 4,772 | 32.2 | (7.4) | 714 | 50.3 | (27.9) | 227 | 191.0 | (48.9) |
| Ashok Leyland | 6,876 | 79.1 | 42.8 | 407 | 122.4 | 60.2 | 127 | LP | LP |
| Bajaj Auto | 8,209 | 20.4 | (7.9) | 1,347 | 7.5 | (22.1) | 1,242 | (5.2) | (20.2) |
| Balkrishna Industries | 1,641 | 20.9 | 9.0 | 483 | 29.5 | 1.5 | 298 | 16.0 | (7.5) |
| Bharat Forge | 1,108 | 25.8 | 6.9 | 223 | 102.7 | 3.7 | 94 | LP | 1.1 |
| Eicher Motors | 2,951 | 33.7 | 4.3 | 648 | 50.0 | (3.6) | 525 | 72.7 | (1.5) |
| Escorts | 2,178 | 57.7 | 8.0 | 338 | 74.2 | (7.1) | 255 | 82.1 | (11.5) |
| Exide Industries | 2,655 | 29.2 | (5.2) | 344 | 27.4 | (14.6) | 190 | 13.1 | (21.2) |
| Hero MotoCorp | 8,475 | 35.9 | (13.3) | 948 | 43.6 | (33.0) | 709 | 14.2 | (34.7) |
| M&M | 13,128 | 43.6 | (7.7) | 1,834 | 61.6 | (19.5) | 1,257 | LP | 3,954.8 |
| Maruti Suzuki | 24,380 | 34.0 | 3.9 | 2,148 | 38.9 | (3.5) | 1,560 | 20.7 | (19.6) |
| Minda Industries | 1,985 | 48.2 | 10.2 | 248 | 103.3 | (6.1) | 88 | 1,157.1 | (18.5) |
| Motherson Sumi | 17,650 | 16.4 | (4.3) | 1,732 | 24.4 | (13.1) | 459 | 150.8 | (42.6) |
| Tata Motors | 88,698 | 41.9 | 17.2 | 10,209 | 178.9 | (20.0) | (14,296) | 44.9 | PL |
| **Total** | **1,84,706** | **37.1** | **7.1** | **21,623** | **83.2** | **(17.0)** | **(7,265)** | **(10.7)** | **(170.1)** |

*Source: Company, ICICI Direct Research; LP = Loss to Profit, PL = Profit to Loss*

**Topline & Profitability (Coverage Universe)**




**Key players volume growth for Q4FY21 (%)**




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

| | Q4FY21 | Q4FY20 | YoY (%) | Q3FY21 | QoQ (%) |
|---|---|---|---|---|---|
| Steel | 62 | 46 | 33.8 | 55 | 12.8 |
| Aluminium | 173 | 141 | 22.7 | 161 | 7.4 |
| Rubber | 156 | 133 | 17.3 | 150 | 4.0 |
| Plastics | 129 | 73 | 76.7 | 72 | 79.9 |
| Lead | 148 | 133 | 11.6 | 140 | 5.8 |

**Average currency movement against rupee**

| | Q4FY21 | Q4FY20 | YoY (%) | Q3FY21 | QoQ (%) |
|---|---|---|---|---|---|
| USD/INR | 72.9 | 72.4 | 0.7 | 73.8 | -1.2 |
| EUR/INR | 88.0 | 79.8 | 10.3 | 87.8 | 0.2 |
| GBP/INR | 100.6 | 92.6 | 8.6 | 97.4 | 3.3 |
| JPY/INR | 0.7 | 0.7 | 4.1 | 0.7 | -2.1 |

**Top Picks**

Ashok Leyland

Minda Industries

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Exhibit 2: Company Specific view - OEMs

| Company | Remarks |
|---|---|
| Ashok Leyland (ALL) | Ashok Leyland is seen outperforming the OEM pack courtesy 32% sequential growth in volume at 44,060 units (up 73% YoY). The product mix is further slated to improve with M&HCV: LCV ratio for Q4FY21 at ~60:40 vs. ~50:50 in Q3FY21. Total operating income is expected at ₹ 6,876 crore (up 79% YoY, 43% QoQ). EBITDA is expected at ₹ 407 crore with corresponding margins at 5.9%, up 60 bps QoQ with high operating leverage benefits mitigating the impact of rise in commodity prices. Ensuing PAT is expected at ₹ 127 crore vs. loss of ₹ 57 in Q4FY20 |
| Bajaj Auto (BAL) | Bajaj Auto is expected to report a muted performance in Q4FY21 amid a sequential decline in volume and high margins in base quarter. Total sales volume was at 11.7 lakh units (up 18% YoY, down 10% QoQ). Product mix improved marginally in favour of 3-W, which constituted ~10% of sales vs. ~9% QoQ. Total operating income for Q4FY21 was at ₹ 8,209 crore (up 20% YoY, down 8% QoQ) amid a 3% sequential rise in ASPs to ₹ 68,806/unit. EBITDA is expected at ₹1,347 crore with margins at 16.4%, down 300 bps QoQ. Ensuing PAT is expected at ₹1,242 crore (down 5% YoY, 20% QoQ) |
| Eicher Motors (EML) | Eicher Motors is expected to report a steady performance in Q4FY21 amid nearly flat Royal Enfield (RE) volumes QoQ at 2.05 lakh units (up 26% YoY & 2% QoQ). Total operating income for Q4FY21 is expected at ₹ 2,951 crore (up 34% YoY, 4% QoQ) amid 2.5% QoQ blended rise in ASPs at RE to ₹ 1.43 lakh/unit. EBITDA is expected at ₹ 648 crore with margins at 22%, down 180 bps QoQ, driven by rise in key input costs. Ensuing PAT is expected at ₹ 525 crore (up 73% YoY, -1% QoQ). VECV's segment share of profit is expected at ₹ 52.8 crore vs. ₹ 31.4 crore in Q3FY21 (volumes up 42% QoQ) |
| Escorts | Escorts is expected to report a steady performance in Q4FY21. Total tractor sales came in at 32,588 units (up 62% YoY, 3% QoQ). Construction equipment segment sales volume for Q4FY21 was at 1604 units (up 63% YoY, 28% QoQ). Consequent total operating income for Q4FY21 is expected at ₹ 2,178 crore (up 58% YoY, 8% QoQ). EBITDA in Q4FY21 is expected at ₹ 338 crore with corresponding EBITDA margins at 15.5%, down 250 bps QoQ, driven by a rise in input costs amid calibrated price hikes by the company. Ensuing PAT is expected at ₹ 255 crore (up 82% YoY, -11% QoQ) |
| Hero MotoCorp (HMCL) | Hero MotoCorp is expected to report a muted sequential performance in Q4FY21 amid 15% decline in sales volume and pressure on margins driven by a rise in raw materials costs as well as negative operating leverage. Total 2-W sales volume was at 15.7 lakh units (up 18% YoY, down 15% QoQ). Total operating income is expected at ₹ 8,475 crore (up 36% YoY, down 13% QoQ) amid 2% sequential rise in ASPs to ₹ 54,037/unit. EBITDA for Q4FY21 is expected at ₹ 948 crore with margins at 11.2%, down 330 bps QoQ. Ensuing PAT is expected at ₹ 709 crore (up 14% YoY, down 35% QoQ) |
| M&M | M&M is expected to report a healthy Q4FY21 performance amidst a 10% sequential drop in total volumes and 200 bps decline in operating margins driven by a rise in commodity prices. Total (automotive + tractor) sales volume was at 2.02 lakh units (up 33% YoY, down 10% QoQ) with consequent total operating income expected at ₹ 13,128 crore (up 44% YoY, down 8% YoY). EBITDA is expected at ₹ 1,834 crore with corresponding margins at 14%. Ensuing PAT is expected at ₹ 1,257 crore vs. loss of ₹ 2,503 crore in Q4FY20. PAT is subject to volatility and is expected to surprise positively as a large part of the investment write offs at the company are behind it |
| Maruti Suzuki (MSIL) | MSIL is expected to report a steady Q4FY21 performance amid limited QoQ decline in sales volume & calibrated price hikes undertaken to partially mitigate rise in input costs. Total sales volume for Q4FY21 was at 4.92 lakh units (up 28% YoY, down 1% QoQ). Consequent total operating income for Q4FY21 is expected at ₹ 24,380 crore (up 34% YoY, 4% QoQ) amid 5% QoQ increase in blended ASPs at ₹ 4.7 lakh/unit. EBITDA for the quarter is expected at ₹ 2,148 crore with EBITDA margins at 8.8%, down 70 bps QoQ. Ensuring PAT is expected at ₹ 1,560 crore (up 21% YoY, down 20% QoQ) |
| Tata Motors (TML) | Tata Motors is excepted to report a muted performance in Q4FY21 despite a sequential uptick in volumes at both JLR & standalone operations primarily tracking pressure on gross margins due to a rise in input costs and already disclosed exceptional charge (restructuring cash and non-cash costs) amounting to £1.5 billion at JLR. For Q4FY21, Tata Motors' Indian operations reported total volumes of 1.92 lakh units (up 89% YoY, up 21% QoQ). JLR wholesale volumes are expected at 1.33 lakh units (up 4.5% YoY, 11% QoQ). On a consolidated basis, total operating income is expected at ₹ 88,698 crore (up 42% YoY, up 17% QoQ). EBITDA is expected at ₹ 10,209 crore with margins at 11.5%, down 540 bps QoQ. Ensuing loss after tax for Q4FY21 is seen at ₹ 14,296 crore |

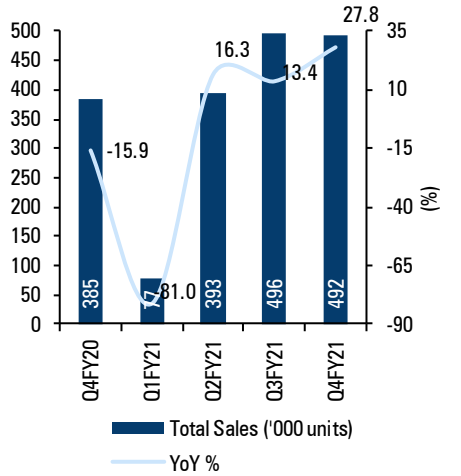
*Source: ICICI Direct Research*

Exhibit 3: Company Specific view - Ancillaries

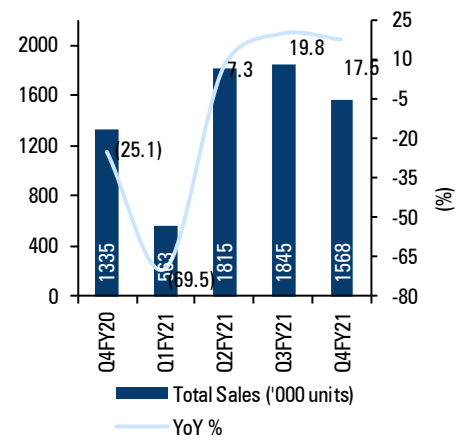
| Company | Remarks |
|---|---|
| Minda Industries (MIL) | Minda Industries is expected to report a robust performance in Q4FY21 amid its constant penchant to outperform the industry as well as amalgamation of Harita Seating numbers for the quarter. On a consolidated basis, the company is expected to report a total operating income of ₹ 1,985 crore (up 48% YoY & 10% QoQ). EBITDA in Q4FY21 is expected at ₹ 248 crore with corresponding EBITDA margins at 12.5%, down 270 bps QoQ amid rise in key raw material costs namely metal and plastics. Ensuing PAT for Q4FY21 is expected at ₹ 88 crore vs. ₹ 7 crore in base quarter Q4FY20 |
| Apollo Tyres (ATL) | Apollo Tyres is expected to report a muted sequential performance in Q4FY21 amid nearly flat tyre sales volume QoQ and sharp decline in margin profile due to uptick in key commodity prices. On a standalone basis, tyre sales volume is expected at ~1.56 lakh tonne (flat QoQ) with standalone EBITDA margins expected at 16.6% (down 480 bps QoQ). On European operations, EBITDA margins are expected to cool off to ~11%. On a consolidated basis, for ATL we expect total operating income at ₹ 4,772 crore (up 32% YoY, down 7% QoQ). EBITDA in Q4FY21 is expected at ₹ 714 crore with corresponding EBITDA margins at 15%, down 420 bps QoQ. Ensuing PAT for Q4FY21 is expected at ₹ 227 crore (up 191% YoY, down 49% QoQ) |
| Bharat Forge (BFL) | Bharat Forge is expected to report a healthy performance in Q4FY21 amid a pick-up in commercial vehicle demand both domestically and globally and limited decline in margins due to operating leverage benefits. On a standalone basis, we expect the company to report total operating income of ₹ 1,108 crore (up 26% YoY & 7% QoQ). EBITDA in Q4FY21 is expected at ₹ 223 crore with corresponding EBITDA margins at 20.1%, down 60 bps QoQ. Ensuing PAT for Q4FY21 is expected at ₹ 94 crore vs. loss of ₹ 73 crore in base quarter Q4FY20 |
| Exide Industries (EIL) | Exide Industries is expected to report a steady performance in Q4FY21 amid a sequential decline in volumes primarily tracking a sequential decline in OEM wholesale dispatches and limited rise in lead prices (key input material) vs. other commodities for our auto coverage. Net sales for the quarter is expected at ₹ 2655 crore (up 29% YoY, down 5% QoQ). EBITDA in Q4FY21 is expected at ₹ 344 crore with corresponding EBITDA margins at 13%, down 140 bps QoQ. Ensuing PAT for Q4FY21 is expected at ₹ 190 crore (up 13% YoY, down 21% QoQ) |
| Balkrishna Industries (BIL) | Balkrishna Industries is expected to report a steady Q4FY21 performance amid a healthy sequential uptick in tyre volumes and decline in margin profile due to uptick in commodity costs viz. rubber and crude derivatives. Total tyre sales volume for Q4FY21 is expected at ~65,000 tonne (up 12% YoY & 9% QoQ). Consequent net sales for the quarter is expected at ₹ 1,641 crore (up 21% YoY & 9% QoQ). EBITDA in Q4FY21 is expected at ₹ 483 crore with corresponding EBITDA margins at 29.4%, down 230 bps QoQ. Ensuing PAT for Q4FY21 is expected at ₹ 298 crore (up 16% YoY, down 8% QoQ) |
| Motherson Sumi (MSSL) | Motherson Sumi (MSSL) is expected to report a stable performance in Q4FY21 with margin profile at its overseas arm especially SMP (plastic body parts division) a key monitorable. On a consolidated basis, we expect the company to report total operating income of ₹ 17,650 crore (up 16% YoY, down 4% QoQ). EBITDA in Q4FY21 is expected at ₹ 1,732 crore with corresponding EBITDA margins at 9.8%, down 100 bps QoQ. Ensuing PAT for Q4FY21 is expected at ₹ 459 crore (up 150% YoY, down 43% QoQ). SMRPBV is expected to report a topline of €1,376 million (up~6% YoY) with corresponding EBITDA at €132 million and operating margins at 9.6% |

*Source: ICICI Direct Research*

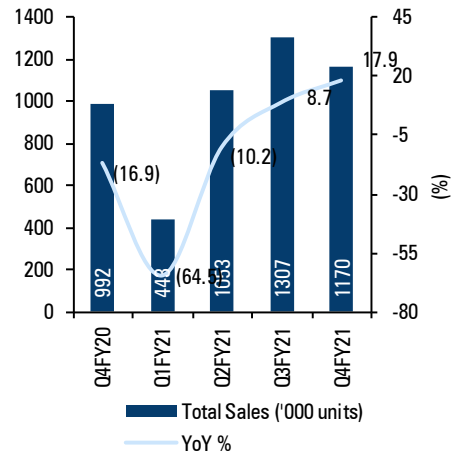
**MSIL volume performance**



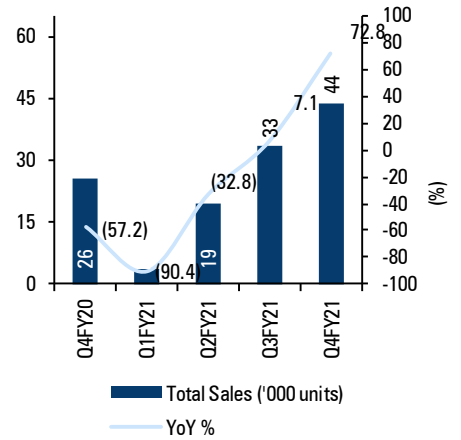

**HMCL volume performance**



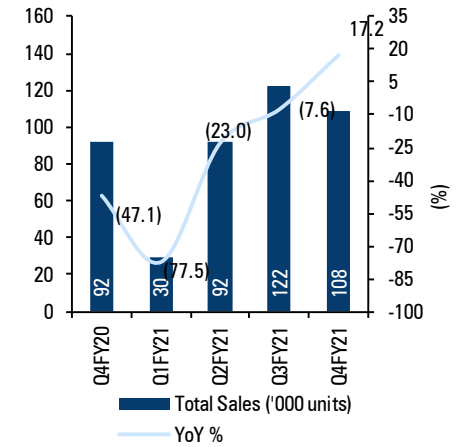

**BAL volume performance**




**ALL volume performance**




**M&M volume performance (auto segment)**




**EML volume performance**

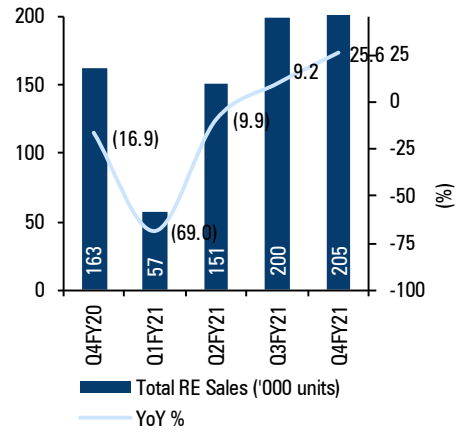



**Exhibit 4: ICICI Direct coverage universe (Auto & Auto Ancillary)**

| Sector / Company | CMP | TP | | M Cap | EPS (₹) | | | P/E (x) | | | EV/EBITDA (x) | | | RoCE (%) | | | RoE (%) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | (₹) | (₹) | Rating | (₹ Cr) | FY21E | FY22E | FY23E | FY21E | FY22E | FY23E | FY21E | FY22E | FY23E | FY21E | FY22E | FY23E | FY21E | FY22E | FY23E |
| Apollo Tyre (APOTYR) | 220 | 300 | Buy | 13,971 | 3.5 | 13.7 | 20.6 | 63.1 | 16.1 | 10.7 | 7.3 | 6.3 | 4.6 | 7.1 | 8.0 | 11.3 | 5.4 | 7.4 | 10.2 |
| **Ashok Leyland (ASHLEY)** | **115** | **150** | **Buy** | **33,662** | **-1.7** | **1.4** | **4.6** | **-66.9** | **82.6** | **25.3** | **115.3** | **23.8** | **12.9** | **-3.6** | **6.1** | **16.4** | **-6.9** | **5.9** | **17.5** |
| Bajaj Auto (BAAUTO) | 3,650 | 4,500 | Buy | 1,05,620 | 154.1 | 184.5 | 219.6 | 23.7 | 19.8 | 16.6 | 18.1 | 14.3 | 11.4 | 25.3 | 26.6 | 27.5 | 19.7 | 20.6 | 21.3 |
| **Balkrishna Ind. (BALIND)** | **1,650** | **2,100** | **Buy** | **31,897** | **55.6** | **65.6** | **77.6** | **29.7** | **25.1** | **21.3** | **18.6** | **15.5** | **13.1** | **19.4** | **21.3** | **22.7** | **18.6** | **19.1** | **19.5** |
| Bharat Forge (BHAFOR) | 620 | 670 | Hold | 28,865 | -5.2 | 11.8 | 19.1 | NM | 52.7 | 32.5 | 43.0 | 23.0 | 16.7 | 1.2 | 7.1 | 11.1 | 3.7 | 10.2 | 14.9 |
| Eicher Motors (EICMOT) | 2,500 | 3,050 | Hold | 68,150 | 48.7 | 73.3 | 94.2 | 51.4 | 34.1 | 26.5 | 34.0 | 23.5 | 18.5 | 11.7 | 15.3 | 16.7 | 12.0 | 15.8 | 17.5 |
| Escorts (ESCORT) | 1,235 | 1,500 | Hold | 15,139 | 62.8 | 65.7 | 77.8 | 19.7 | 18.8 | 15.9 | 12.6 | 12.1 | 9.9 | 16.8 | 14.6 | 14.9 | 14.7 | 13.5 | 13.9 |
| Exide Industries (EXIIND) | 185 | 225 | Buy | 15,725 | 8.0 | 9.9 | 10.9 | 17.3 | 14.1 | 12.8 | 11.8 | 9.6 | 8.5 | 12.9 | 14.7 | 15.0 | 10.2 | 11.6 | 11.8 |
| Hero Moto (HERHON) | 2,920 | 4,000 | Buy | 58,312 | 139.1 | 169.9 | 200.3 | 21.0 | 17.2 | 14.6 | 13.7 | 11.0 | 9.0 | 18.8 | 21.2 | 22.9 | 17.9 | 19.7 | 20.9 |
| **M&M (MAHMAH)** | **780** | **1,000** | **Buy** | **96,970** | **10.8** | **36.0** | **44.8** | **72.1** | **21.7** | **17.4** | **14.9** | **13.4** | **10.9** | **9.6** | **9.6** | **11.4** | **7.7** | **11.1** | **12.5** |
| Maruti Suzuki (MARUTI) | 6,825 | 7,000 | Reduce | 2,06,170 | 144.5 | 198.8 | 233.4 | 47.2 | 34.3 | 29.2 | 32.6 | 20.8 | 17.3 | 3.9 | 7.8 | 9.1 | 8.5 | 10.9 | 11.8 |
| **Minda Industries (MININD** | **525** | **625** | **Buy** | **14,275** | **5.8** | **11.6** | **17.9** | **90.2** | **45.1** | **29.4** | **22.1** | **15.3** | **12.0** | **8.7** | **14.2** | **19.1** | **8.7** | **15.9** | **19.5** |
| Motherson (MOTSUM) | 210 | 225 | Hold | 66,317 | 2.5 | 6.7 | 8.1 | NM | 31.5 | 26.0 | 15.6 | 9.0 | 7.6 | 6.0 | 16.3 | 18.9 | 7.1 | 16.1 | 17.4 |
| Tata Motors (TATMOT) | 310 | 375 | Buy | 1,11,529 | -50.8 | 23.1 | 32.6 | NM | 13.4 | 9.5 | 6.1 | 4.2 | 3.4 | 4.7 | 11.6 | 13.8 | -41.3 | 15.8 | 18.2 |

*Source: Company, ICICI Direct Research*

## RATING RATIONALE

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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