

April 7, 2023

Gross margins to plateau, ancillary set to outperform...

New product launches as well as technical capabilities showcased in the alternate fuel domain during Auto Expo 2023, robust wholesale volume prints for March 2023 thereby ending the year with ~20% volume growth for the industry in FY23P, resurging raw material prices from their lows, fresh price hike announced by OEMs in response to transition to BS-VI stage 2 norms (starting April 2023) and resurfaced chip supply issues were some key highlights for Q4FY23. Total industry volumes in Q4FY23 are expected to grow ~5% QoQ primarily led by outperformance in the CV and PV space. With majority of raw material decline benefits already accrued by OEMs in the past and tyre space set to witness already guided gross margin expansion in Q4FY23, amid a steady rise in key raw material prices, we expect gross margins to largely peak out for our universe in the current quarter (Q4FY23). We expect our coverage universe [ex-Tata Motors (TAMO)] to report 7% QoQ sales growth & flat QoQ margins at 12.7% with PAT expected to grow 9% QoQ (tracking topline growth). We expect the auto ancillary space to outperform the OEM pack (led by margin recovery particularly by tyre players). Key outliers for Q4FY23 are seen as Ashok Leyland, Tata Motors in OEM space and Apollo Tyres in the ancillary pack.

Steady margin trajectory across OEMs, operating leverage at play

On the volume front, in the 2-W space, volumes at industry leader Hero MotoCorp for the quarter were at 12.7 lakh units, up 2.5% QoQ while the same in the premium segment i.e. Royal Enfield at Eicher Motors was at 2.2 lakh units, down 1.3% QoQ. For Bajaj Auto, total volumes for the quarter were down 12.8% QoQ at 8.6 lakh units. In the PV domain, total volumes at Maruti Suzuki came in at 5.1 lakh units, up 10.5% QoQ while total automotive volumes at M&M were at 1.9 lakh units, up 7.5% QoQ. In the CV space, volumes at Ashok Leyland came in healthy at ~60,000 units, up 25.5% QoQ with favourable product mix and M&HCV to LCV ratio at 68:32. In the tractor space, it was a seasonally weak quarter, with sales volumes declining in double digits QoQ at both listed players. In the auto OEM space (ex-Tata Motors), we expect sales to grow 7% QoQ with a marginal 20 bps decline in EBITDA margins at 12.1%. Consequent PAT growth is seen at 7% QoQ.

Another quarter of margin recovery for ancillary pack

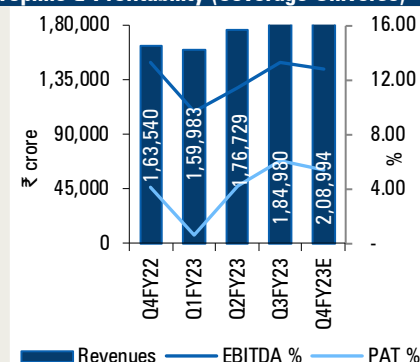
In the ancillary space, we expect sales to grow 4% QoQ with ~120 bps expansion in EBITDA margins and consequent PAT growing 31% QoQ. Steady topline growth was largely driven by QoQ growth in the domestic market amid muted export sentiments shared by the management. Tyre space is seen benefitting from a decline in RM prices and sea freight charges.

Exhibit 1: Estimates for Q4FY23E (₹ crore)

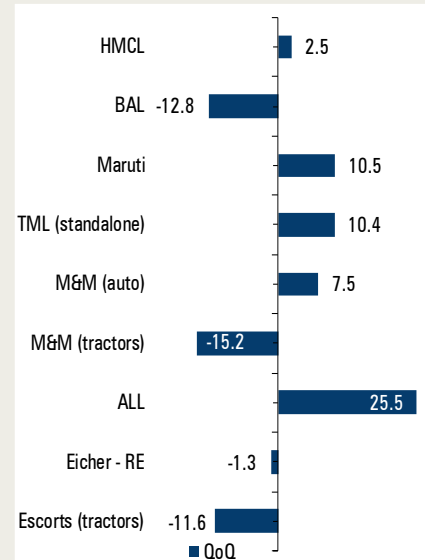
	Revenue Change (%)			EBITDA Change (%)			PAT Change (%)		
	Q4FY23E	YoY	QoQ	Q4FY23E	YoY	QoQ	Q4FY23E	YoY	QoQ
Apollo Tyres	6,245.9	12.0	(2.8)	952.2	52.0	4.3	342.7	202.1	17.3
Ashok Leyland	11,670.6	33.5	29.2	1,166.1	50.3	46.3	678.5	(24.7)	87.8
Bajaj Auto	8,525.9	6.9	(8.5)	1,583.4	15.9	(10.9)	1,357.4	(7.6)	(9.0)
Balkrishna Ind.	2,363.1	(0.5)	10.3	355.2	(28.9)	38.0	205.9	(44.9)	106.7
Bharat Forge	2,153.1	28.6	10.3	603.8	40.0	12.9	357.0	36.3	23.5
Eicher Motors	3,641.6	14.0	(2.1)	881.6	16.4	2.8	770.4	26.3	4.0
Escorts Kubota	2,170.9	16.6	(4.1)	180.2	(26.0)	(5.3)	170.6	(15.6)	(8.5)
Hero MotoCorp	8,230.5	10.9	2.5	1,029.8	24.4	11.4	741.9	18.3	4.4
M&M	22,182.9	29.5	2.4	2,757.0	41.7	(2.0)	1,750.8	35.5	14.6
Maruti Suzuki	32,470.2	21.4	11.8	3,173.7	30.8	12.0	2,403.0	30.7	2.2
Uno Minda	3,163.6	31.0	8.5	379.6	37.8	12.2	199.5	38.2	23.2
Tata Motors	1,06,176.1	35.4	20.0	13,663.7	18.9	11.3	2,269.2	319.7	(23.3)
Total	2,08,994.2	27.8	13.0	26,726.1	13.1	9.0	11,247.0	64.2	0.7

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

Topline & Profitability (Coverage Universe)



Key players volume growth for Q4FY23 (%)



Average commodity price movement (₹/kg)

	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)
Steel (CRC)	64	74	-13.5	61	4.5
Aluminium	217	267	-18.8	210	3.1
Rubber	143	166	-13.8	147	-2.8
Plastics	103	144	-28.1	81	27.1

Average currency movement against rupee

	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)
USD/INR	82.3	75.2	9.3	82.2	0.0
EUR/INR	88.3	84.2	4.9	83.9	5.3
GBP/INR	100.0	100.7	-0.7	96.4	3.7
JPY/INR	0.62	0.65	-3.7	0.58	7.0

Top Picks

Ashok Leyland
Tata Motors
Apollo Tyres

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Exhibit 2: Company Specific view - OEMs

Company	Remarks
Ashok Leyland (ALL)	ALL is expected to report a robust performance in Q4FY23 amid a 26% sequential rise in volumes for the quarter at 59,697 units. M&HCV: LCV ratio for the quarter was at 68:32 vs. 65:35 in Q3FY23. With 3% QoQ rise in ASPs at ₹ 19.5 lakh/unit, net sales are seen at ₹ 11,671 crore (up 29.3% QoQ). With largely stable gross margins amid healthy operating leverage, EBITDA & EBITDA margins for the quarter are seen at ₹ 1,166 crore & 10% (up 116 bps QoQ), respectively. Ensuing PAT for Q4FY23 is seen at ₹ 678.5 crore vs. ₹ 361.3 crore in Q3FY23
Bajaj Auto (BAL)	BAL is expected to report a muted performance in Q4FY23 with total volumes down 12.8% QoQ at 8.6 lakh units. Export volumes are down 21% QoQ while domestic volumes are down 6% QoQ with exports share in volumes at 40% vs. 45% in Q3FY23. The 3-W share in volume mix improved ~300 bps QoQ to 16%. This, coupled with improved product mix in the 2-W space, is expected to aid ~5% QoQ rise in blended ASP's to ₹ 96,500/unit. For the quarter, we expect BAL to report net sales of ₹ 8,526 crore, down 8.5% QoQ. EBITDA in Q4FY23 is expected at ₹ 1,583 crore with EBITDA margins at 18.6%, down 50 bps QoQ. Consequent PAT for the quarter is expected at ₹ 1,357 crore, down 9% QoQ
Eicher Motors (EML)	EML is expected to report a steady performance in Q4FY23. Royal Enfield (RE) volumes for the quarter came in at 2.2 lakh units, down 1.3% QoQ with the product mix marginally improving in favour of >350 cc segment. Share of >350 cc motorcycles in total sales volume for Q4FY23 was at 10% vs. 9% in Q3FY23. Consequent consolidated net sales for Q4FY23 are expected at ₹ 3,642 crore, down 2.1% QoQ. EBITDA in Q4FY23 is expected at ₹ 882 crore with EBITDA margins at 24.2%, up 120 bps QoQ. Consolidated PAT for Q4FY23 is expected at ₹ 770 crore, up 4% QoQ
Escorts (Escorts)	Escorts is expected to report a muted performance in Q4FY23. Total tractor sales for the quarter came in at 24,765 units (down 11.6% QoQ, seasonally weak quarter) while construction equipment volumes were at 1,528 units (up 26.4% QoQ). Ensuing net sales for Q4FY23 are expected at ₹ 2,171 crore, down 4.1% QoQ. EBITDA in Q4FY23 is expected at ₹ 180 crore with corresponding EBITDA margins at 8.3%, down 10 bps QoQ. Consequent PAT is expected at ₹ 171 crore, down 8.5% QoQ
Hero MotoCorp (HMCL)	HMCL is expected to report a steady performance in Q4FY23 with total 2-W volumes at 12.7 lakh units, up 2.5% QoQ. We expect ASPs to be flat QoQ amid largely unchanged product mix at ₹ 64,782/unit. Consequently, we expect net sales at the company to grow 2.5% QoQ to ₹ 8,231 crore. EBITDA for Q4FY23 is expected at ₹ 1,030 crore with EBITDA margins at 12.5%, up 100 bps QoQ. Consequent PAT in Q4FY23 is expected at ₹ 742 crore, up 4.4% QoQ
M&M	M&M is expected to report a healthy performance in Q4FY23. Total tractor sales volumes for the quarter were at 0.9 lakh units, down 15.2% QoQ while automotive volumes were up 7.5% QoQ at 1.9 lakh units. Consequent net sales for Q4FY23 are seen up 2.4% QoQ to ₹ 22,183 crore with automotive ASPs seen at ~₹ 8.6 lakh/unit (up 2% QoQ) and tractor ASPs seen at ₹ 5.97 lakh/unit (up 0.5% QoQ). Standalone EBITDA for Q4FY23 is expected at ₹ 2,757 crore with EBITDA margins at 12.4%, down 60 bps QoQ. A sequential decline in margins is also a function of lower share of the high margin tractor business for the quarter. Standalone PAT for Q4FY22 is seen at ₹ 1,751 crore, up 14.6% QoQ (exceptional loss reported in Q3FY23)
Maruti Suzuki (MSIL)	MSIL is expected to report a healthy performance in Q4FY23. Net sales for the quarter are expected at ₹ 32,470 crore, up 11.8% QoQ amid 11% QoQ growth in volumes at 5.15 lakh units and 1% QoQ rise in ASPs to ₹ 6.03 lakh/unit. The product mix for Q4FY23 remained broadly unchanged with share of UVs in total volumes mix at 24%. EBITDA in Q4FY23 is expected at ₹ 3,174 crore with EBITDA margins at 9.8%, flat QoQ. Operating leverage gains on account of a QoQ rise in volumes is expected to be negated by Auto Expo expenses held in January 2023. Consequent PAT is expected at ₹ 2,403 crore vs. ₹ 2,351 crore in Q3FY23
Tata Motors (TML)	TML is expected to report a healthy performance in Q4FY23 primarily tracking a recovery in wholesale volumes at JLR. Total sales volume at Indian operations was at 2.52 lakh units, up 10.4% QoQ with JLR sales volume (including China JV) anticipated at 1.08 lakh units, up 16.6% QoQ. On a consolidated basis for Q4FY23, we expect TML to report net sales of ₹ 1.06 lakh crore, up 20% QoQ. EBITDA in Q4FY23 is expected at ₹ 13,664 crore with corresponding EBITDA margins at 12.9%. JLR's EBITDA margins are expected at 13.5% in Q4FY23. At the PAT level, we expect the company to report profit of ₹ 2,269 crore in Q4FY23

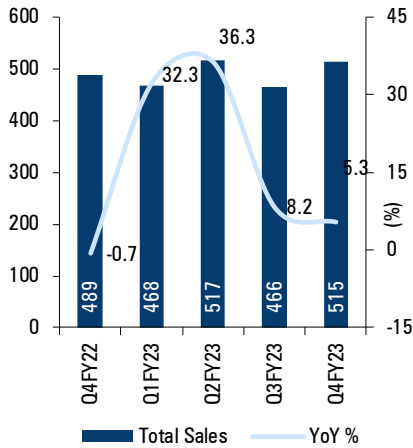
Source: Company, ICICI Direct Research

Exhibit 3: Company Specific view - Ancillaries

Company	Remarks
Uno Minda (UML)	<p>UML is expected to report a robust performance in Q4FY23 primarily tracking QoQ growth in wholesale dispatches in the PV & 2-W segments and the company's propensity to grow ahead of industry. Net sales, on a consolidated basis, are expected at ₹ 3,164 crore, up 8.5% QoQ. EBITDA for the quarter is expected at ₹ 380 crore with corresponding EBITDA margins at 12%, up 40 bps QoQ, with the company expected to benefit from a decline in RM costs as well as operating leverage benefits. PAT for Q4FY23 is expected at ₹ 200 crore, up 23% QoQ</p>
Apollo Tyres (ATL)	<p>ATL is expected to report a robust performance in Q4FY23 amid QoQ decline in realised RM prices. We expect gross margin expansion to largely peak for the company in the current quarter. Standalone sales in Q4FY23 are seen at ₹ 4,336 crore, up 2.1% QoQ with EBITDA margins at 14.5% (up 160 bps QoQ). We expect the company to benefit from 20%+ volume growth in the domestic CV space (Q4FY23). On a consolidated basis, net sales are expected at ₹ 6,246 crore, down 2.8% QoQ. EBITDA in Q4FY23 is expected at ₹ 952 crore with EBITDA margins at 15.2%, up 100 bps QoQ. Ensuing PAT for the quarter is expected at ₹ 343 crore, up 17% QoQ</p>
Bharat Forge (BFL)	<p>BFL is expected to report a healthy performance in Q4FY24 tracking steady export prospects and double digit QoQ growth in domestic PV & CV space sales volume. On a standalone basis, we expect it to report total operating income of ₹ 2,153 crore, up 10% QoQ. EBITDA for Q4FY23 is seen at ₹ 604 crore with corresponding EBITDA margins at 28%, up 60 bps QoQ. Standalone PAT is expected at ₹ 357 crore, up 23% QoQ. The company's commentary on defence order book build-up would be the key monitorable from quarterly results</p>
Balkrishna Industries (BIL)	<p>BIL is expected to report a resurgent performance in Q4FY23 amid QoQ growth in exports, partial benefits of lower RM as well as freight costs. We expect the company to report net sales of ₹ 2,363 crore, up 10.3% QoQ amid ~10% sequential growth in sales volume at ~73,250 tonne. EBITDA in Q4FY23 is expected at ₹ 355 crore with corresponding EBITDA margins at 15%, up 300 bps QoQ. Ensuing PAT for Q4FY23 is expected at ₹ 206 crore vs. ₹100 crore in Q3FY23 (nearly 2x on QoQ basis)</p>

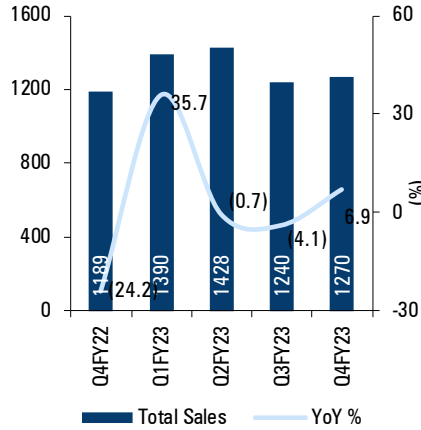
Source: Company, ICICI Direct Research

MSIL volume performance ('000 units)



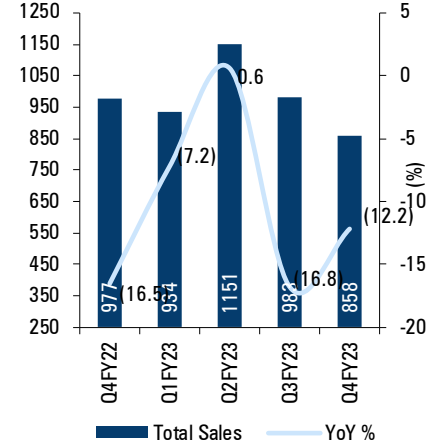
Source: Company, ICICI Direct Research

HMCL volume performance ('000 units)



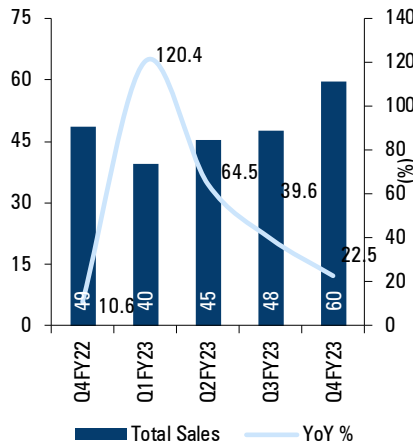
Source: Company, ICICI Direct Research

BAL volume performance ('000 units)



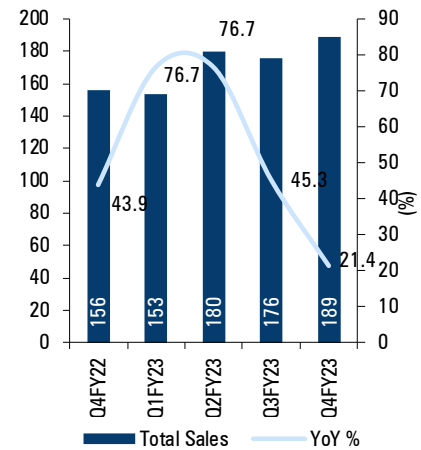
Source: Company, ICICI Direct Research

ALL volume performance ('000 units)



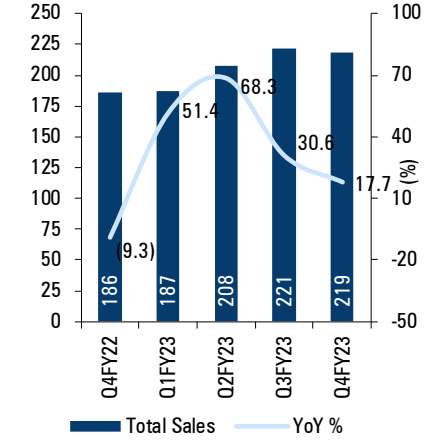
Source: Company, ICICI Direct Research

M&M volume performance (automobile, '000 units)



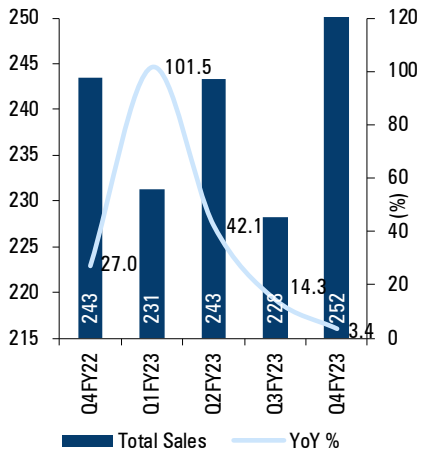
Source: Company, ICICI Direct Research

EML volume performance (RE, '000 units)



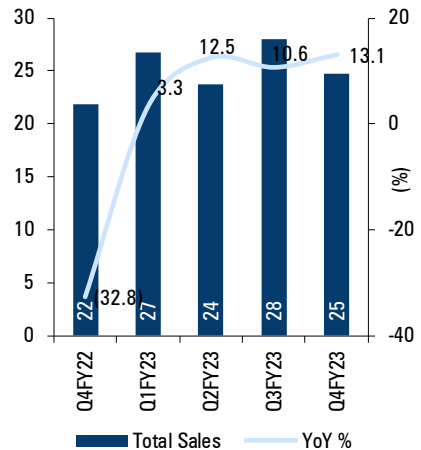
Source: Company, ICICI Direct Research

Tata Motors (India Operations, '000 units)



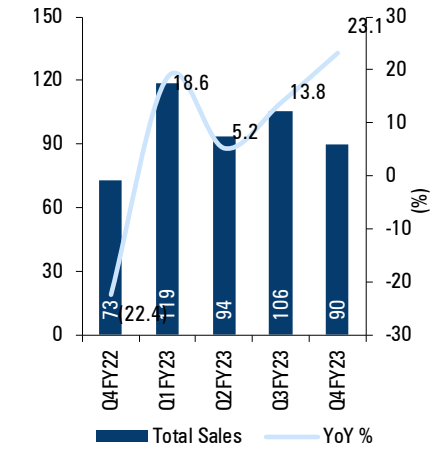
Source: Company, ICICI Direct Research

Escorts (Tractors, '000 units)



Source: Company, ICICI Direct Research

M&M (Tractors, '000 units)



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 (%)		
	(₹)	(₹)			FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Apollo Tyre (APOTYR)	319	390	Buy	20,258	15.9	25.2	30.0	20.0	12.7	10.6	7.4	5.7	4.9	10.0	13.8	14.9	8.1	11.8	12.9
Ashok Leyland (ASHLEY)	136	185	Buy	39,926	3.9	6.8	8.3	35.1	20.1	16.3	15.6	11.0	9.1	15.9	23.3	27.8	14.1	22.0	23.5
Bajaj Auto (BAAUTO)	4,033	4,100	Hold	1,16,703	197.5	240.9	264.1	20.4	16.7	15.3	15.2	12.2	10.9	24.2	29.0	31.0	22.3	26.1	27.5
Balkrishna Ind. (BALIND)	1,968	2,170	Hold	38,045	52.1	77.5	95.9	37.7	25.4	20.5	27.4	17.1	13.9	8.6	15.8	19.2	13.2	17.3	18.7
Bharat Forge (BHAFOR)	762	1,050	Buy	35,476	12.7	25.2	34.4	59.8	30.2	22.1	21.0	15.7	12.4	8.0	11.7	14.8	8.5	15.0	18.0
Eicher Motors (EICMOT)	2,965	4,065	Buy	81,033	101.5	123.4	141.8	29.2	24.0	20.9	20.7	17.2	14.3	19.8	20.2	27.3	19.2	20.3	20.2
Escorts Kubota (ESCORT)	1,876	2,165	Hold	24,752	45.1	60.7	72.4	41.6	30.9	25.9	26.7	21.2	16.5	6.9	8.4	9.9	8.0	9.0	9.9
Hero Moto (HERHON)	2,423	2,770	Hold	48,387	137.2	169.7	188.3	17.7	14.3	12.9	10.5	8.5	7.5	18.4	22.2	23.7	16.6	19.5	20.5
M&M (MAHMAH)	1,172	1,665	Buy	1,45,703	54.9	66.3	75.3	21.3	17.7	15.6	13.7	11.6	9.7	13.1	14.3	15.4	16.6	15.9	15.9
Maruti Suzuki (MARUTI)	8,508	11,200	Buy	2,57,010	261.9	369.0	431.5	32.5	23.1	19.7	19.7	14.1	11.6	12.9	16.9	17.9	13.3	16.7	17.2
Uno Minda (MININD)	483	630	Buy	27,616	11.5	15.6	18.6	42.1	30.9	26.0	21.9	17.4	14.8	15.2	18.0	19.2	16.3	18.4	18.2
Tata Motors (TATMOT)	437	530	Buy	1,67,327	-3.1	24.3	35.8	-142.7	18.0	12.2	6.4	4.3	3.4	7.9	15.1	18.6	-2.5	16.3	19.4

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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