

PV industry up 11% YTD, but recovery not yet broad-based

Compact sedan continues to lose ground to premium hatchbacks and UV1

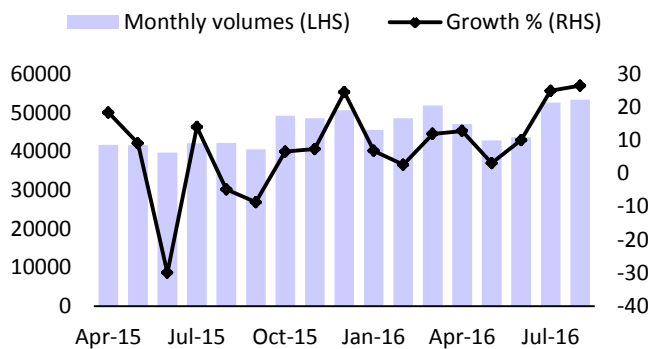
- PV industry grew 10.7% YoY in FY17 YTD, but a broad-based recovery is yet to be seen.
- Mini segment grew 15.6%, with incremental volumes entirely driven by Kwid and Redi-go.
- Maruti's premium products (excl. S-Cross) are challenging market leaders.
- No respite for M&M yet, as momentum in new launches has slowed down.
- Refreshed Toyota Innova becomes the largest selling model in value terms, with average volumes improving to ~7,800/month (v/s 4,600/month in FY16).
- Our top picks are MSIL and M&M in large caps, and AL, AMRJ and BHFC in midcaps.

We analyzed model-wise monthly volumes of the passenger vehicle (PV) industry and came across some interesting trends. Our key observations for FY17 YTD are:

Mini segment incremental volumes driven by Kwid/Redi-go, hurting Maruti

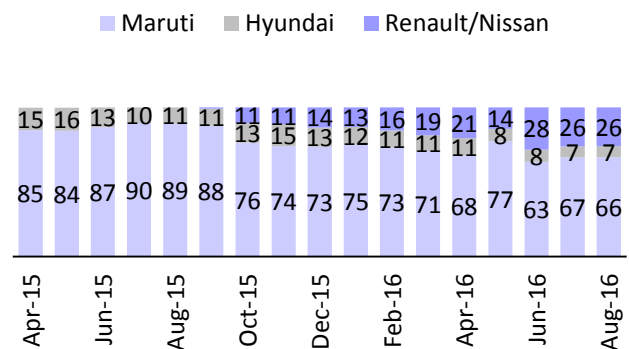
- The mini segment grew 16% YoY in FY17 YTD, driven purely by incremental volumes of Kwid. Excluding Kwid/Redi-Go volumes, mini segment volumes were down 11.4% YoY during the same period.
- Over the past 4-5 months, Kwid has consistently maintained its run-rate of ~10,000 units/month. The waiting period of Kwid has gradually come down from upto six months when it was launched, to 1 month in July-16 and to nil now.
- The launch of 1-liter-engine in Kwid (at ~6% premium to 800cc variant) in the last week of Aug-16 should help maintain momentum for Kwid, in our view.
- The launch of Datsun's Redi Go in the last week of Aug-16 at a price point 5% lower than Alto 800 is likely to further increase competitive intensity in the entry-level segment. Redi-Go currently has a waiting period of ~2 months.
- With the rural market showing signs of a recovery, MSIL's mini segment portfolio is expected to recover as Renault has limited reach in this market.

Exhibit 1: Mini segment volumes driven by Kwid



Source: MOSL, Company

Exhibit 2: MSIL losing market share to Renault's Kwid



Source: MOSL, Company

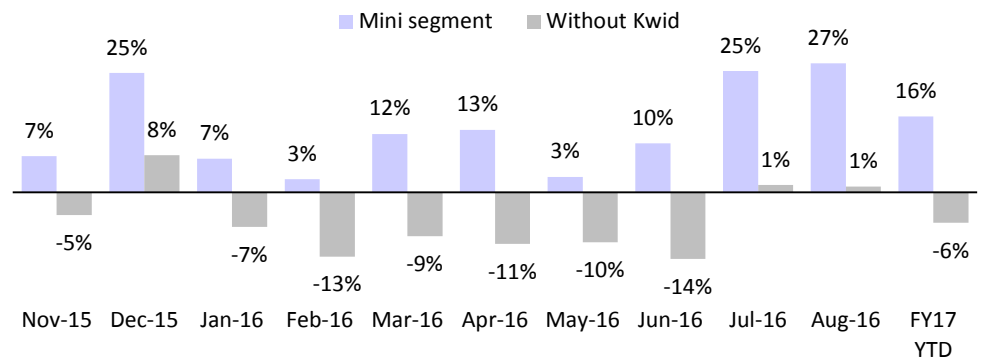
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Exhibit 3: Mini segment declined for six consecutive months till Jun-16

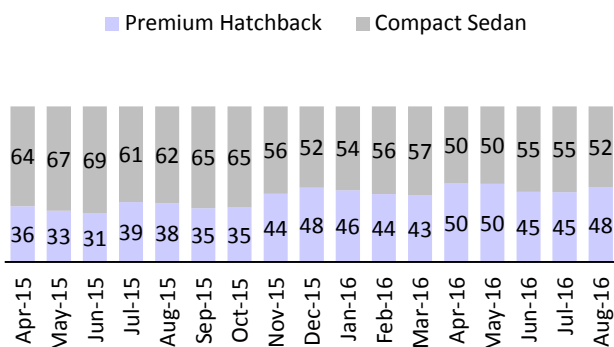


Source: MOSL, Company

New launches in premium hatchback and compact UVs lead to cannibalization of compact sedans

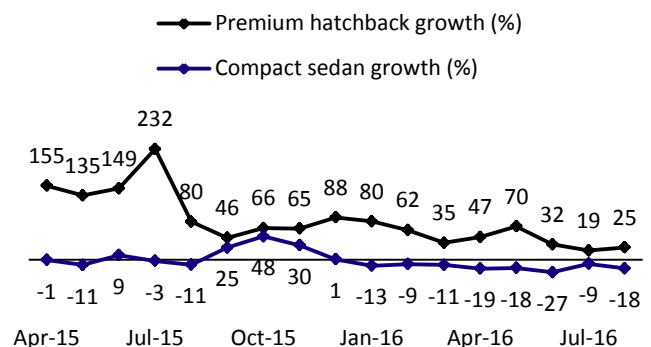
- New launches (Baleno), coupled with the introduction of refreshed versions of existing models (Hyundai’s Elite I20), helped maintain momentum in the premium hatchback space, which grew 37% YoY in FY17 YTD (excl. Baleno decline of ~12%).
- On the other hand, compact sedan segment declined by 18%, despite strong demand from the taxi segment.
- Increase in the share of premium hatchbacks highlights changing consumer preference, driven by new attractive model launches in that segment, as against ‘simple’ looking compact sedans.
- This change in consumer preference could also be due to increasing usage of compact sedans in the taxi segment.
- Compact sedans could also face competition from compact SUVs (like Vitara Brezza and EcoSport) due to converging price points.

Exhibit 4: Shift toward premium hatchbacks due to similar price points and better features



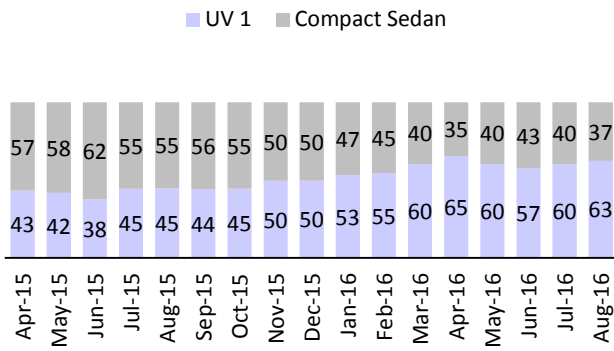
Source: Company

Exhibit 5: Trend in volume growth for premium hatchbacks and compact sedans



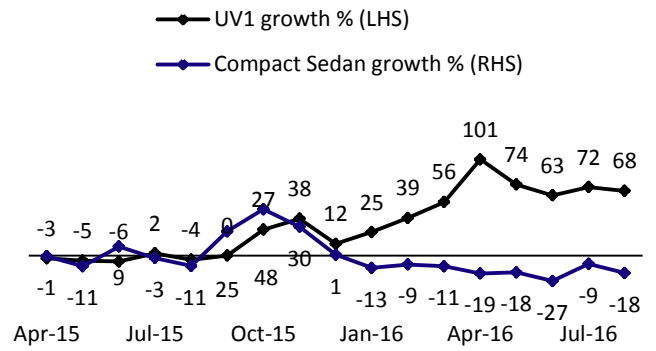
Source: Company

Exhibit 6: UV1 also competing for compact sedan customers



Source: MOSL, Company

Exhibit 7: Volume growth trend for UV1/compact sedans

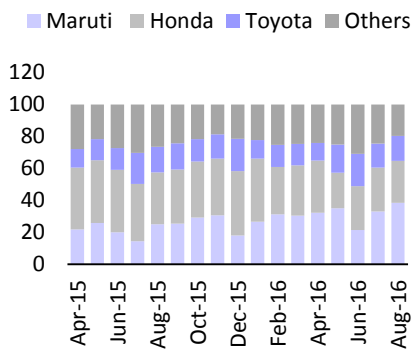


Source: MOSL, Company

MSIL’s premium products topping the charts

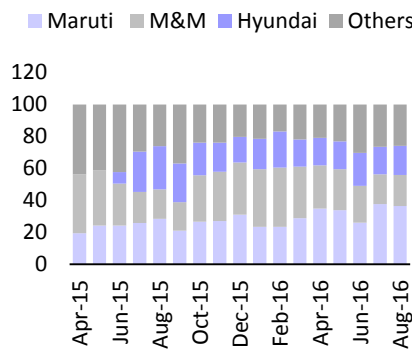
- All of MSIL’s premium launches (except S-Cross) have outperformed peers in their respective segments.
- Ciaz overtook City to be the market leader in the mid-size sedan segment in FY17 YTD. Despite capacity constraints, Baleno is posing stiff competition to market leader i20 in the premium hatchback space, with Baleno being close #2 in the domestic market.
- Volumes of the newly launched Vitara Brezza have aided MSIL to significantly surpass competition in the UV1 segment.
- Outperformance of MSIL’s Ciaz, Baleno and Brezza indicates increased acceptance of premium products from MSIL.

Exhibit 8: Market share of leading players in mid-size sedans



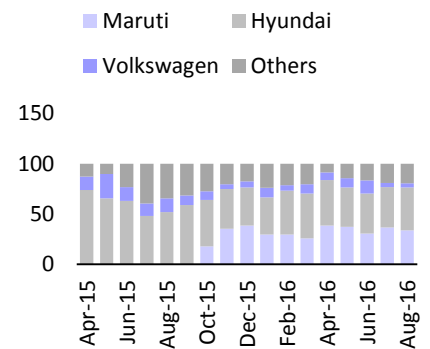
Source: Company, MOSL

Exhibit 9: Market share of leading players in premium hatchbacks



Source: Company, MOSL

Exhibit 10: Market share of leading players in UV1 sub-segment



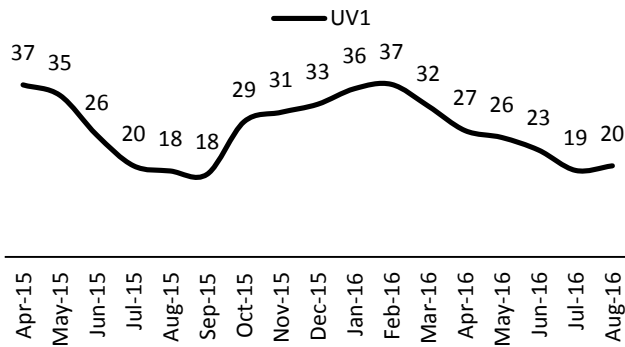
Source: Company, MOSL

M&M: No respite yet

- The launch of TUV300 and KUV100 boosted M&M’s UV1 volumes, thereby aiding market share expansion from Oct-15 to Feb-16. However, with initial momentum moderating and intense competition, the company continued losing market share.
- Besides, volumes of Bolero declined 35% YoY in FY17 YTD on account of weak sentiment in the rural markets.
- With the launch of 100bhp TUV300 (v/s 84bhp earlier) and Bolero Power+, volumes are likely to recover. Increased demand in the upcoming festive season is also likely to aid growth.

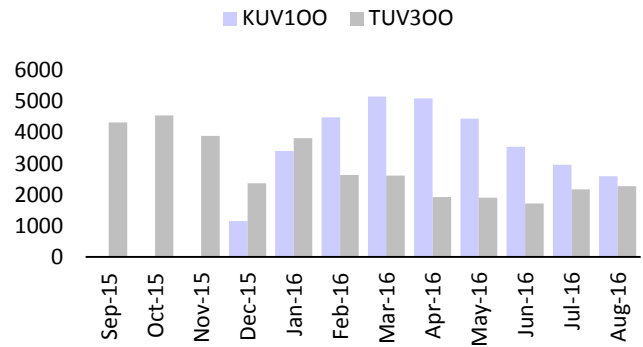
- Similarly, it has launched Scorpio Intelli-Hybrid in Jul-16 at ~5% lower price. We expect micro-hybrid to be extended to XUV500 and Bolero as well.

Exhibit 11: M&M's UV1 share on declining trend



Source: MOSL, Company

Exhibit 12: M&M's monthly volumes of new launches

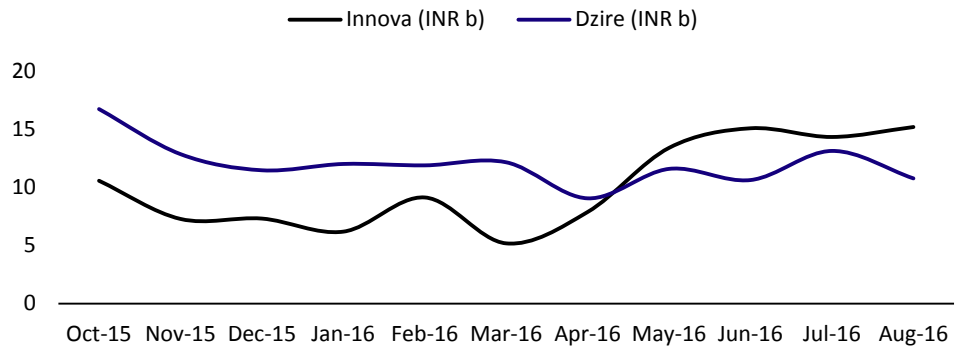


Source: MOSL, Company

Most new launches off to brisk start

- **New Toyota Innova back with a bang – becomes largest-selling model value-wise:** Toyota’s new Innova Crysta overtook MSIL’s Swift Dzire to become the single-largest-selling model in terms of value. The launch of a petrol variant too aided volumes. Since its launch in May-16, it has clocked average volume of ~7,800 units/month (v/s average of 4,600 units/month in FY16).

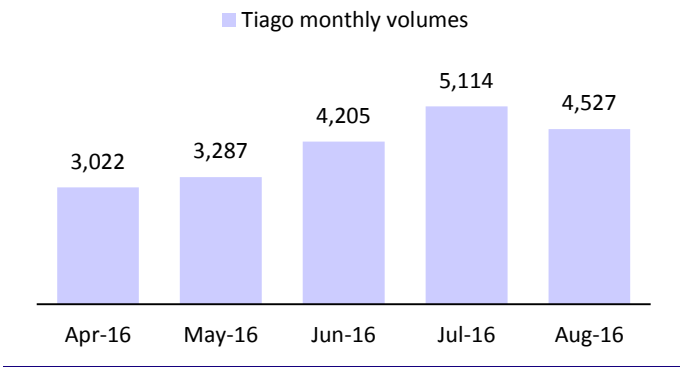
Exhibit 13: Value-wise sales of Innova v/s Dzire (INR b)



Source: Company

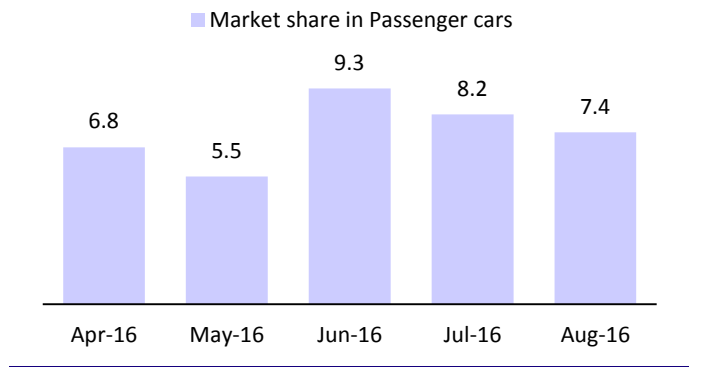
- **Tata Motors making a comeback? Tiago ramping up well:** Since the launch of Tiago in Apr-16, its volumes have been gradually ramping up. Given the aging product portfolio of its peers (Hyundai’s Eon and Datsun’s Go), Tiago is expected to outperform peers, thus adding incremental volumes for TTMT.

Exhibit 14: Tiago enjoys waiting period of 2-3 months



Source: Company, MOSL

Exhibit 15: Market share of Tata Motors in passenger car segment post launch of Tiago

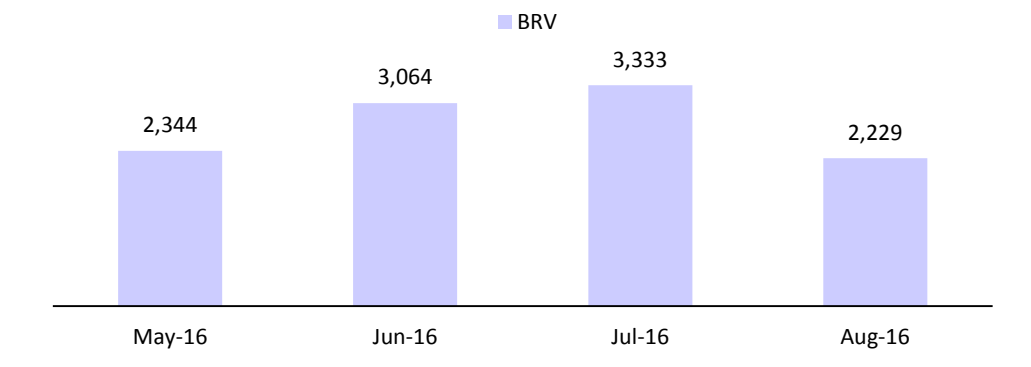


Source: Company, MOSL

■ **Other new launches also performing reasonably well**

- Being among the late entrants in the highly competitive compact UV space with its BRV, Honda has garnered decent response. With various models at different price points in the compact UV space, it will be interesting to see how Honda’s BRV fits in.
- Datsun launched Redi Go at a competitive price point in the entry-level segment (5% lower than MSIL’s Alto 800 and 13% lower than Renaults Kwid).

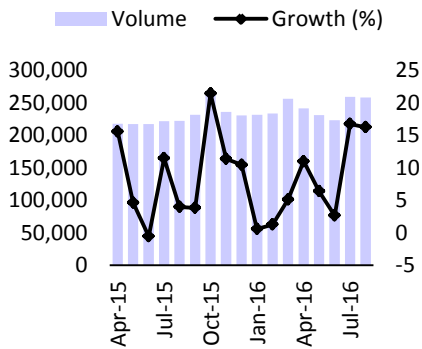
Exhibit 16: Launch of BRV marks Honda’s entry into competitive compact UV segment



Source:

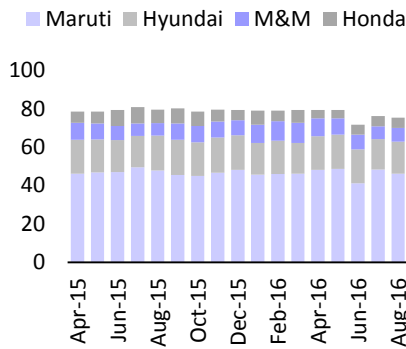
Key sectoral trends

Exhibit 17: Domestic PV volume and growth



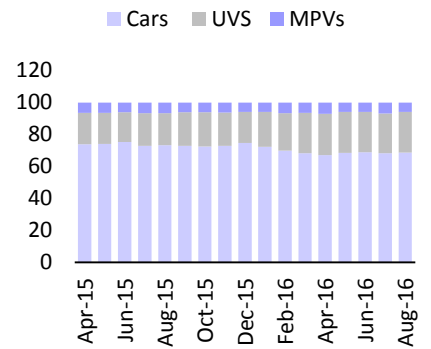
Source: Company, MOSL

Exhibit 18: Market share of leading players in domestic PV



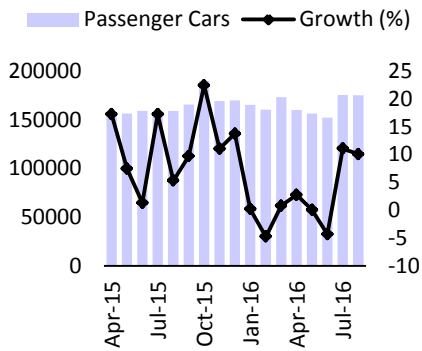
Source: Company, MOSL

Exhibit 19: Share of UVs on the rise in PV mix



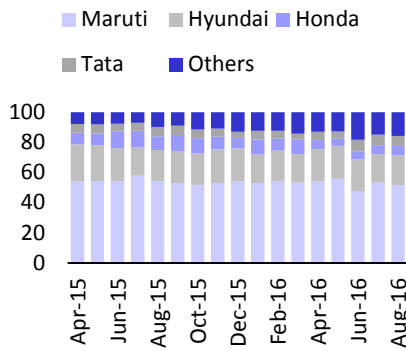
Source: Company, MOSL

Exhibit 20: Domestic passenger car volumes and growth



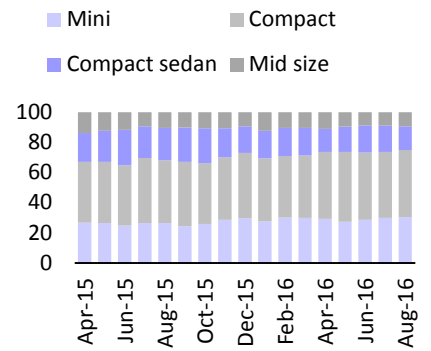
Source: Company, MOSL

Exhibit 21: Market share of leading players in domestic passenger cars



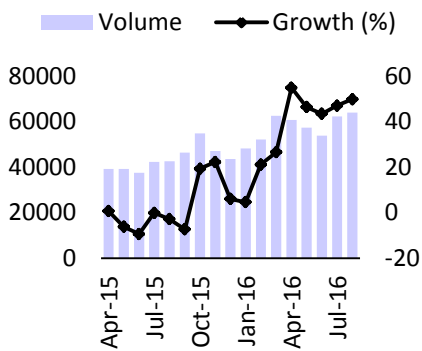
Source: Company, MOSL

Exhibit 22: New launches drive the share of compact segment higher



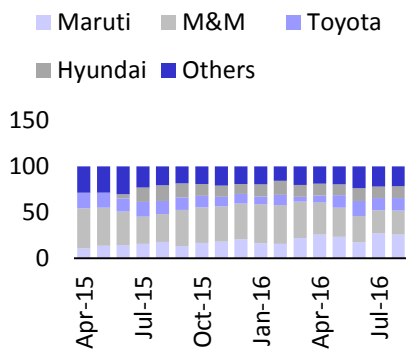
Source: Company, MOSL

Exhibit 23: Domestic utility vehicle volumes and growth



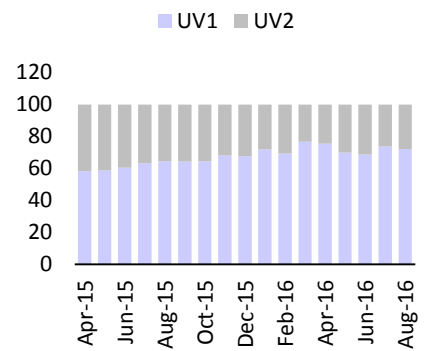
Source: Company, MOSL

Exhibit 24: Market share of leading players in domestic UVs



Source: Company, MOSL

Exhibit 25: Share of UV1 on the rise led by new launches



Source: Company, MOSL

Valuation and view

- After a prolonged period of muted demand for 2Ws due to two consecutive years of below-average monsoon, we are now witnessing a strong recovery driven by good progress in rains this year and positive consumer sentiment. 4Ws too are seeing good traction, primarily due to demand for new launches as well as the compact UV segment.
- We expect the recovery in 2Ws and 4Ws to strengthen further, led by a) boost from the rural market, b) higher spending power due to the payout of 7th Pay Commission, and c) likely economic recovery from 2HFY17.
- While we estimate a good recovery in volumes for 2Ws (~12% CAGR in FY16-18E) and 4Ws (~13% CAGR in FY16-18E), severe competitive intensity would restrict pricing power for 2W OEMs. Hence, we prefer 4Ws over 2Ws.
- For CVs, we expect the recovery to continue due to ~15% CAGR in volumes over FY16-18E and relatively good pricing power with OEMS.
- Our top picks are MSIL and M&M in large caps, and AL, AMRJ and BHFC in midcaps.

Exhibit 26: Comparative valuation

	CMP	Rating	TP	P/E (x)		EV/EBITDA (x)		RoE (%)		RoCE (%)		EPS CAGR (%)
	(INR)*			(INR)	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E
Auto OEM's												
Bajaj Auto	2,926	Buy	3,455	20.5	16.1	14.3	11.3	31.2	33.9	30.4	33.1	17.4
Hero MotoCorp	3,539	Neutral	3,666	19.3	16.5	12.7	10.7	41.5	39.9	40.5	39.1	16.4
TVS Motor	349	Buy	330	28.5	21.7	17.3	13.4	27.1	28.7	28.0	30.2	33.0
M&M	1,414	Buy	1,724	19.3	14.3	15.9	12.7	15.4	17.8	12.9	15.1	23.9
Maruti Suzuki	5,595	Buy	5,506	25.5	20.3	15.1	12.6	20.3	21.5	27.6	28.9	33.4
Tata Motors	558	Buy	558	13.0	10.1	4.8	4.0	16.6	18.1	12.0	13.2	22.4
Ashok Leyland	84	Buy	105	12.9	9.9	7.1	5.6	29.8	31.0	21.9	25.2	47.2
Eicher Motors	24,778	Buy	27,451	39.7	29.3	31.7	25.8	41.1	40.3	26.3	28.1	30.9
Auto Ancillaries												
Bharat Forge	924	Buy	921	33.7	25.1	16.8	13.7	16.9	20.0	11.6	14.5	14.4
Exide Industries	195	Buy	205	21.8	18.9	13.8	12.0	15.3	15.5	15.8	16.2	18.6
Amara Raja Batteries	1,033	Buy	1,038	30.9	24.9	18.1	14.9	24.4	24.7	23.1	23.6	20.4
BOSCH	23,402	Neutral	26,512	44.5	30.9	34.4	23.3	18.5	22.8	26.3	31.3	17.8

Source: Company, MOSL

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