MOTILAL OSWAL

Automobiles

2W retails recovering post initial GST hiccups

Rural growth recovering on positive sentiment due to timely rain

- **We interacted with leading 2W mass market channel partners from Andhra Pradesh, Gujarat, Karnataka, Maharashtra and Rajasthan to understand and assess the demand recovery post GST.**
- **Most 2W channel partners indicted gradual recovery in retail demand from the second half of July. Our interactions indicate that TVSL, HMSI and HMCL are growing better than BJAUT in retails.**
- **Factors such as good monsoon and increase in MSPs have lifted sentiment in rural/semi-urban areas. Pre-festive demand is evident in states like Maharashtra and Gujarat.**
- **Channel partners have indicated pre-festive inventory building driving wholesale demand.**
- **Floods in Rajasthan and Gujarat are impacting demand in a few regions. Launch of Vahan-4 is halting vehicle registration in few districts of Gujarat.**

Retail sales improving MoM post initial GST hiccups

Retail demand on the ground is showing gradual recovery in the last couple of weeks due to normalization of GST-related anxiety. Further, pre-festive demand beginning with Ganesh Chaturthi in Maharashtra followed by Navratri and Diwali should drive volumes. Currently, in key states such as Rajasthan, Andhra Pradesh, Maharashtra and Gujarat, our interactions suggest retail growth of 5-7%. This is expected to inch up to 10-12% in subsequent months, led primarily by festive demand.

YS Guleria, Sr VP, Sales and Marketing HMSI, said

"Post GST, the first 10 days of July were a little slow because the consumer was out in the market and trying to find out what kind of benefit had really been passed on to them and then comparing the prices being offered by the various two wheeler makers."

TVSL, HMSI and HMCL witnessing better retails than BJAUT

TVSL, HMCL and HMSI are witnessing better retail demand growth of 5-8% YoY, while BJAUT's retails are relatively stable YoY (as its portfolio is urban focused). *Jupiter* and *Apache* are leading TVSL's growth, while *Activa* is the sole demand driver for HMSI. HMCL is also recovering market share in key traditional markets like Rajasthan. One of the largest HMCL dealers indicated 15-20% retail sales growth in Rajasthan, led by conversion of pent-up demand in the last six months due to regulatory impact. And 7-10% incease in price realizations of key crops like mustard and onion.

Vahan 4 impacting registrations in Gujarat; however, demand intact

Our interactions with few channel partners in Gujarat indicated slower retails YoY, as registration of vehicles is stopped in districts like Surat due to implementation of Vahan 4 (flagship e-governance application under national transport project). The government is planning Vahan 4 implementation pan India in the subsequent month and plans to abolish the existing RTO system. Demand should bounce back in the subsequent month, as underlying demand drivers are intact.

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Inventory stocking to mitigate festive demand

Most OEMs have indicated inventory stocking ahead of the series of festivals such as Ganapati, followed by Diwali (15 days ahead compared to last year), as last minute rush leads to cancellation/deferment in some cases. For example, one of the largest dealers of TVS indicated 30-40% more inventory to meet festive demand.

Freebies in select regions to win back customers; no recent price increase

No cash discounts are being offered by OEMs to push inventory. However, in the case of HMCL and BJAUT, dealers are offering freebies such as free insurance on a case-to-case basis. HMCL dealers are giving free insurance scheme and loyalty bonus to win back customers in Rajasthan. As per our interactions, HMCL has managed to gain 200-300bp market share in Rajasthan in 3-4 months, backed by its product offerings and aggressive marketing strategy. BJAUT dealers are running free insurance schemes in Karnataka.

No clear preference for scooters in rural markets, yet

Our interactions with channel partners in rural-dominated markets like Rajasthan and Gujarat indicate that motorcycles are still the preferred mode of commute. Key components in motorcycles – like telescopic suspension (provides longer travel) and better shock absorbers – makes them better-suited for rural road conditions.

Some impact of recent floods in Gujarat and Rajasthan on demand

Flood-like situations in Gujarat and Rajasthan have impacted demand in some pockets. For example, demand in Balmer and Sirohi regions of Rajasthan has been affected by floods. The full impact of the same is yet to be assessed and evaluated.

Valuation and view

We prefer 4Ws over 2Ws and CVs due to stronger volume growth and a stable competitive environment. While we expect 2W volumes to benefit from a rural recovery in the near term, competitive intensity remains high in the segment due to changing customer preferences. **Our top picks in Autos are Tata Motors, MSIL and Amara Raja.** We also like MM as the best bet on a rural market recovery. In the 2W space, we have **Buy** on BJAUT, EIM and TVSL, while we are **Neutral** on HMCL.

Story in charts

Exhibit 1: Dom. 2W industry growth recovers post demon

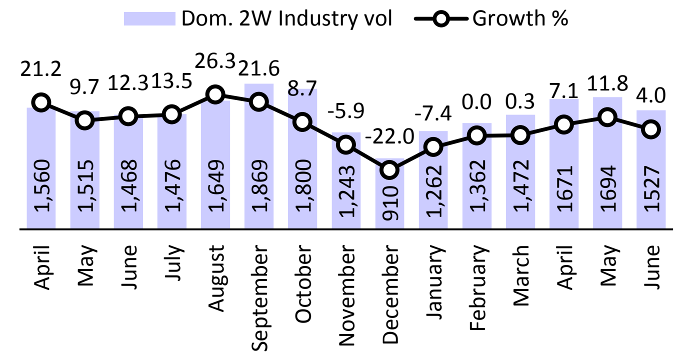


Exhibit 2: Segment wise domestic 2W growth

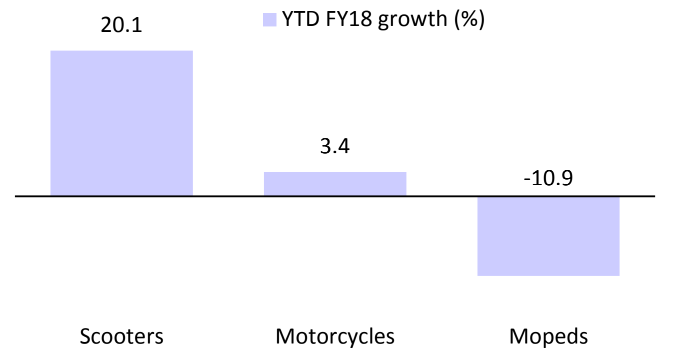


Exhibit 3: 1QFY18 - BJAUT's decline steep, RE outgrows others

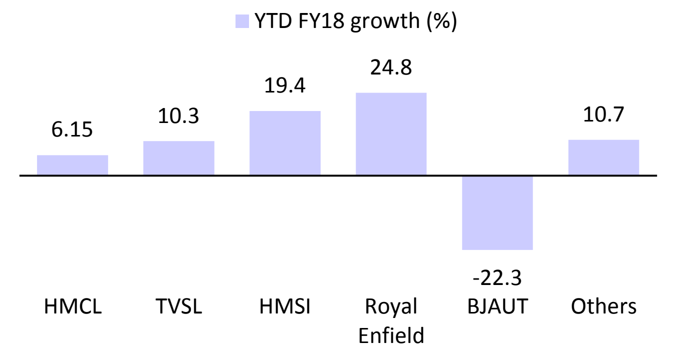


Exhibit 4: Scooters reaching recent historical growth levels

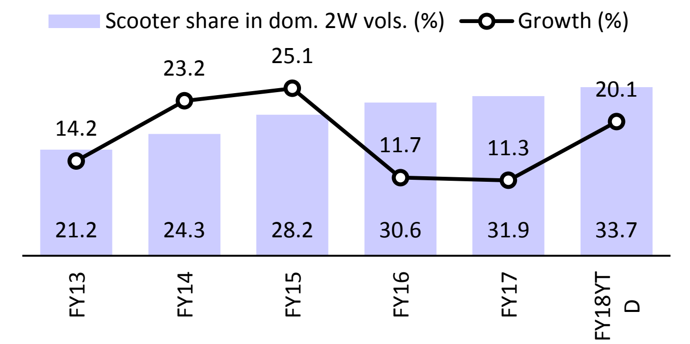


Exhibit 5: Scooter share higher in West and South in FY17

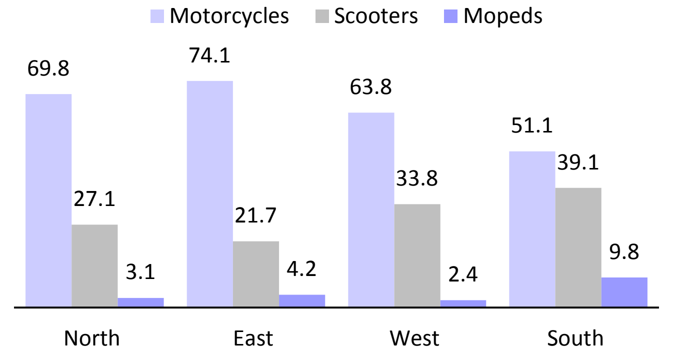


Exhibit 6: States with higher share of motorcycles (FY17)

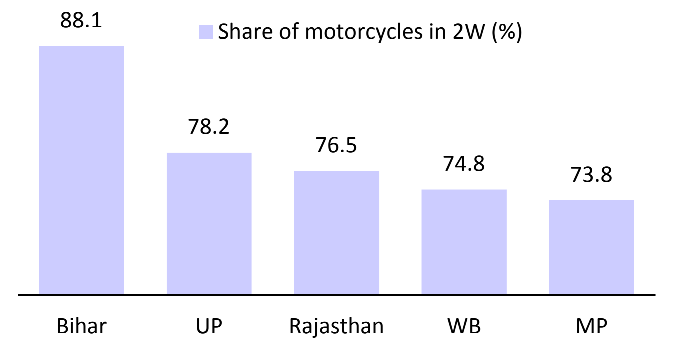
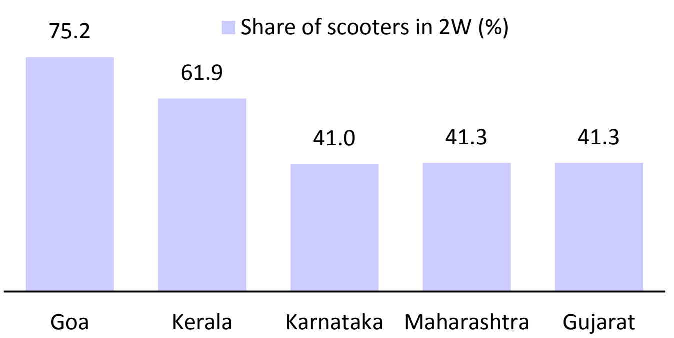
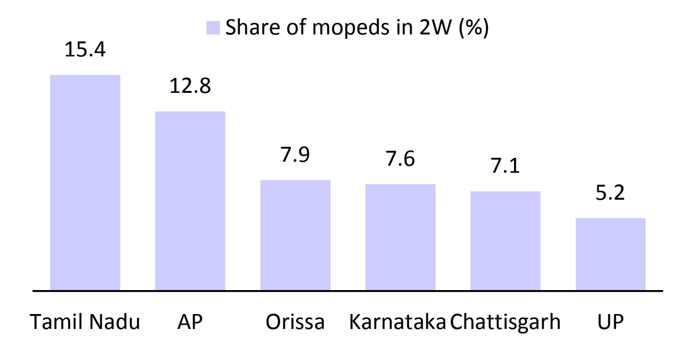


Exhibit 7: Progressive states has higher share of scooters



Source: SIAM

Exhibit 8: Mopeds still dominated in Southern states



Source: SIAM

Exhibit 9: Comparative valuations

	CMP	Rating	TP	P/E (x)		EV/EBITDA (x)		RoE (%)		Div Yld (%)		EPS CAGR (%)
	INR		(INR)	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY17-19E
Auto OEM's												
Bajaj Auto	2,846	Buy	3,281	20.8	17.4	15.0	12.3	22.2	24.0	2.3	2.8	11.2
Hero MotoCorp	3,707	Neutral	3,818	19.6	18.6	12.6	12.1	34.6	31.5	2.4	2.4	8.5
TVS Motor	574	Buy	606	35.2	22.2	23.3	15.2	28.6	35.2	0.5	0.8	48.5
M&M	1,398	Buy	1,580	21.0	17.5	15.1	12.9	14.1	14.6	1.4	1.4	21.3
Maruti Suzuki	7,592	Buy	8,863	27.0	20.2	16.7	12.9	20.1	22.8	1.1	1.3	22.8
Tata Motors	446	Buy	631	14.4	6.9	4.2	2.7	16.5	27.3	0.1	0.1	80.2
Ashok Leyland	105	Buy	118	20.3	15.1	10.2	7.7	23.2	27.0	1.9	2.1	23.7
Eicher Motors	29,062	Buy	31,326	33.7	26.3	27.4	22.6	40.8	38.0	0.5	0.6	34.0
Auto Ancillaries												
Bharat Forge	1,141	Buy	1,330	30.3	23.0	17.9	14.4	19.8	22.3	0.7	0.9	37.8
Exide Industries	215	Buy	269	23.4	19.6	14.5	12.2	14.1	15.0	1.0	1.0	16.3
Amara Raja Batt.	848	Buy	1,095	24.0	20.1	14.3	11.8	21.2	21.3	0.6	0.8	22.6
BOSCH	23,962	Neutral	23,738	36.9	31.3	24.7	21.0	21.1	21.9	0.9	1.1	27.3
Endurance Tech	922	Buy	1,025	30.2	23.8	14.6	12.2	22.4	23.6	0.4	0.8	28.6

Source: Company, MSOL

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