

## Retails momentum mixed for 2W, CV; PV healthy

### Healthy wedding season demand partially negated by untimely rain

- Our interaction with the leading automotive channel partners in India indicates ebbing retail sales momentum, particularly in 2Ws, due to the impact of untimely rain in key markets.
- Demand momentum in the rural markets continues to be healthy. Untimely rain did hurt key markets like Maharashtra, but the impact is expected to be temporary.
- 2W demand remains mixed, as the momentum gained from the wedding season demand in the northern belt is partially negated by muted sales in Maharashtra and UP. HMCL outperformed in motorcycles, capitalizing on healthy wedding season demand in north.
- MSIL continues to see better retails than competitors, with S-cross bookings of ~12k units. TTMT too is gaining momentum, led by its revamped product portfolio and huge success for the recently launched Nexon.
- CV demand was not exciting. Discounts increased sequentially. Tippers sales were healthy.
- We prefer 4Ws over 2Ws and CVs due to stronger volume growth and a stable competitive environment. Our top picks in autos are MSIL, Bajaj Auto, Tata Motors and Amara Raja.

### Healthy festive retail momentum ebbing due to untimely rain

- Retail demand, particularly in the 2W segment, is slowing due to the impact of untimely rain in key markets like Maharashtra and Tamil Nadu. However, we note that off-take remains relatively good in other key markets like Gujarat, Uttar Pradesh, West Bengal and Rajasthan.
- Notably, retails of HMCL have been better than competitors in rural-centric markets.
- We also note the growth rate in rural markets is gradually surpassing that in urban markets. Scooters and new products launches are driving urban demand, while an improvement in rural sentiment and better crop realization (of key crops like onion, cotton, mustard and grapes) are supporting rural demand.

### Rural growth solid led by healthy pre-wedding season demand

- Channel partners of the most of the OEMs have indicated a continued increase in footfall of rural customers.
- Key rural-centric markets like Rajasthan, Maharashtra, Gujarat, UP and MP are witnessing continued increase in inquiries and conversions, led by the improving cash situation of farmers.
- Our interaction with the channel partners indicates that central and north have witnessed better demand than other regions, primarily led by healthy wedding season demand. Improvement in farm income is also boosting rural sentiment.

**Mr. Y S Guleria,**

**VP - Marketing and Sales,  
HMSI, said**

*"There are early signs that the farmer is out there in the market. Retail off take, which normally slows down after the festive season, has seen a pick-up of walk-ins and buying in central India"*

- Based on our interaction, we note that bookings related to the wedding season have been healthy in the current month, which can drive robust retails in the first half of December.
- Growth should also be driven by a low base of the previous year (November onward sales last year were impacted by demonetization).

#### **MSIL leading PV sales momentum; TTMT – PV product overhaul benefits visible**

- Growth in PV demand is relatively good v/s 2W, as MSIL retails momentum remains healthy in south, north and west states.
- Response to the recently refreshed S-cross remains encouraging, with a waiting period of 6-8 weeks. Bookings at the pan-India level (as indicated by one of the channel partners) are approaching ~12k units (v/s average monthly wholesales of ~2k in FY18 YTD). Demand for the top-end model is ~55-60%.
- TTMT's PV segment too is gaining traction with the revamped product portfolio. Inquiries and conversions for Nexon have been healthy, with an average waiting period of ~6 weeks. TTMT is also considering the launch of AMT version of Nexon by March 2018.

#### **Moderation in freebies/discounts across regions by OEMs**

- No cash discounts and cash benefits are being offered by OEMs to push inventory.
- HMCL's channel partners are offering free insurance and loyalty bonus to win back customers in Rajasthan. Average benefit per scooter amounts to ~4.5k per unit.
- On the PV front, MSIL is offering normal cash discount on entry-level models of INR15-18k per unit.

#### **CV sales mixed – tippers, ICVs, LCVs demand healthy; discounts increase MoM**

- Our interaction with channel partners indicates a mix trend in demand for M&HCV due to limited cargo availability. CVs are exhibiting a gradual recovery, as LCVs and ICVs have seen a pick-up in growth, while sales of HCVs are expected to recover gradually.
- Segmentally, tippers and road construction, mining applications trucks are witnessing better demand.
- Discounting continues to remain high and rise sequentially, as volume push to gain market share continues.

#### **Valuation 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 MSIL, Bajaj Auto, Tata Motors and Amara Raja.**
- We also consider MM as the best bet on a rural market recovery.
- In the 2W space, we have **Buy** rating on BJAUT and EIM, and **Neutral** on HMCL and TVSL.

**Exhibit 1: 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       | 3,316  | Buy     | 4,197  | 21.3    | 17.6  | 17.2          | 13.5  | 25.0    | 26.8  | 2.0         | 2.3   | 15.4         |
| Hero MotoCorp    | 3,657  | Neutral | 3,819  | 20.0    | 18.9  | 12.6          | 11.9  | 33.7    | 31.1  | 2.5         | 2.5   | 7.1          |
| TVS Motor        | 736    | Neutral | 764    | 49.3    | 28.5  | 31.0          | 18.7  | 26.5    | 35.6  | 0.4         | 0.5   | 48.3         |
| M&M              | 1,434  | Buy     | 1,658  | 19.1    | 16.7  | 14.2          | 12.8  | 14.5    | 14.6  | 1.4         | 1.4   | 25.6         |
| Maruti Suzuki    | 8,669  | Buy     | 9,866  | 30.1    | 22.8  | 18.8          | 14.7  | 20.5    | 23.0  | 1.0         | 1.2   | 23.8         |
| Tata Motors      | 414    | Buy     | 575    | 16.8    | 6.4   | 4.6           | 2.7   | 13.4    | 28.3  | 0.1         | 0.1   | 80.8         |
| Ashok Leyland    | 121    | Buy     | 134    | 26.9    | 19.4  | 13.3          | 9.9   | 20.4    | 25.2  | 1.7         | 1.9   | 16.9         |
| Eicher Motors    | 30,235 | Buy     | 34,722 | 37.1    | 28.5  | 28.4          | 23.8  | 35.7    | 35.0  | 0.5         | 0.6   | 31.7         |
| Auto Ancillaries |        |         |        |         |       |               |       |         |       |             |       |              |
| Bharat Forge     | 700    | Buy     | 844    | 36.6    | 26.9  | 20.1          | 16.1  | 20.1    | 23.2  | 0.6         | 0.8   | 41.0         |
| Exide Industries | 207    | Buy     | 254    | 26.1    | 21.4  | 15.5          | 12.8  | 12.5    | 13.7  | 1.1         | 1.1   | 9.1          |
| Amara Raja Batt. | 805    | Buy     | 856    | 28.5    | 23.6  | 14.8          | 11.9  | 17.3    | 18.1  | 0.5         | 0.7   | 10.4         |
| BOSCH            | 20,057 | Neutral | 19,965 | 43.8    | 33.3  | 27.0          | 20.5  | 15.2    | 18.1  | 0.8         | 1.0   | 12.9         |
| Endurance Tech   | 1,192  | Buy     | 1,334  | 43.2    | 32.5  | 19.2          | 15.8  | 20.5    | 22.8  | 0.3         | 0.6   | 25.0         |

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