

Autos & Transportation

Festive uptick

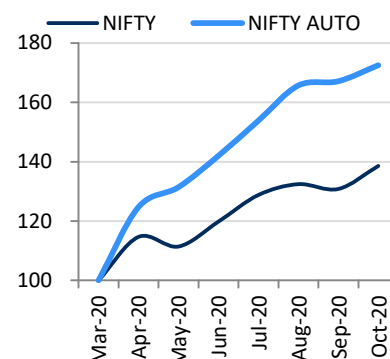
Demand is now back up to pre-COVID levels across sectors, including two-wheelers, passenger cars and tractor segments. The sales recovery is led by the further opening of various regions (unlock-5), sustained rural demand and inventory build-up ahead of the festive season. We expect an all-round improvement in margins in 2QFY21 driven by rising utilisation levels (production is now running at 65-90% of capacity). Correspondingly, valuation multiple for auto companies continue to re-rate and are now trading at levels between mean P/E and +1 std deviation. NIFTY Auto index is up a further 20% over the quarter (vs. 9% for the broader NIFTY). We believe that stock price returns will be driven by retail trends in the festive season as well as expectations of supportive government policy (GST reduction, scrappage scheme). We have a BUY on Maruti, Hero and Endurance in the autos segment and prefer Gateway Distriparks in the logistics segment.

- **Demand revival:** Demand is now back up to pre-COVID levels across sectors including two-wheelers, passenger cars and tractor segments. Even within CVs, demand for light trucks has risen sharply, though sales for heavy trucks remains below trend levels (though higher QoQ). The upsurge in sales is led by (1) gradual opening up of various regions under Unlock 5, (2) sustained demand from rural, led by good monsoons, and (3) inventory build-up ahead of the festive season as OEMs expect demand to be healthy.
- **Stock multiples have re-rated:** Valuation multiples for auto companies continue to re-rate and are now trading between mean PE levels and +1 standard deviation above mean as the NIFTY Auto index is up another 20% in the Sep-20 quarter (vs. 9% for the broader NIFTY). Several factors have driven the rally, including (1) sustained recovery in volumes for rural segment/increased preference for personal mobility, (2) structural reforms announcement by the government for the agri segment, and (3) expectations of supportive policy for the auto sector (GST reduction for two-wheelers, scrappage scheme for CVs). We believe that stock price returns will be driven by the retail trends in the festive season and policy support over the coming quarter.
- **2QFY21 earnings outlook – expect a recovery in margins:** We expect margins to rebound in 2QFY21 as utilisation levels have risen (to between 65-90% levels) and discounting trends have been under check. Further, the impact of rising commodity prices is likely to be felt with a lag of ~3 months.
- **Logistics:** Volumes for container rail operators have improved – CONCOR's volumes are +21% QoQ. This is driven by a pickup in EXIM traffic as well as by market share gains by Indian Railways. However, the stock price of CONCOR will continue to be driven by news flow around privatisation, while Gateway Distriparks will benefit from its recent fundraising/deleveraging initiatives.
- **Key recommendations:** We remain positive on Maruti, Hero Moto and Endurance in the auto/auto parts sector. These companies will benefit from the ongoing recovery in demand, given their market leadership position and broad-based presence (particularly in the rural segment). We recently upgraded Gateway Distriparks to a BUY post the recent rights issuance.

	CMP (Rs)	Reco	TP (Rs)
Ashok Leyland	76	REDUCE	71
Bajaj	3,060	ADD	3,230
Eicher	2,218	REDUCE	1,980
Escorts	1,222	ADD	1,290
Hero Moto	3,327	BUY	3,800
M&M	633	ADD	675
Maruti	7,062	BUY	8,160
Tata Motors	138	ADD	155
Amara Raja	741	ADD	815
Endurance	1,080	BUY	1,260
Subros	239	ADD	260
Gulf Oil	639	BUY	790
CONCOR	370	ADD	410
Gateway	96	BUY	125

*CMP as of 9th Oct-20

NIFTY Auto index is up over 80% from Mar-20 levels



Source: Bloomberg, HSIE Research; indexes rebased to 100

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2QFY21E earnings preview

	Volume (in units '000)			NET SALES (Rs bn)			EBITDA Margin (%)			APAT (Rs bn)			Adj. EPS		
	2Q FY21E	QoQ (%)	YoY (%)	2Q FY21E	QoQ (%)	YoY (%)	2Q FY21E	QoQ (bps)	YoY (bps)	2Q FY21E	QoQ (%)	YoY (%)	2Q FY21E	1Q FY21	2Q FY20
AUTOS															
Ashok Leyland	19	410	(33)	31.3	381	(20)	5.2	NA	(62)	(0.1)	NA	NA	(0.0)	(1.3)	0.4
Bajaj Auto	1,053	138	(10)	70.6	129	(8)	15.2	193	(138)	10.4	96	(26)	35.8	18.2	48.5
Eicher	151	163	(10)	20.3	148	(7)	22.0	2,154	(269)	3.7	NA	(28)	13.6	(2.0)	19.0
Escorts	24	35	24	15.3	44	16	11.5	23	193	1.3	41	15	12.9	9.1	11.2
Hero Moto	1,815	222	7	94.4	218	25	12.8	916	(174)	9.2	1,404	(0)	46.2	3.1	46.3
Mahindra	185	94	(3)	108.7	94	(1)	13.8	355	(29)	10.2	2,529	(24)	8.6	0.3	11.4
Maruti	393	413	16	197.7	382	16	9.0	NA	(46)	15.1	NA	11	50.0	(8.3)	45.0
Tata Motors	110	341	5	108.7	305	9	1.5	NA	NA	(11.2)	NA	NA	(3.1)	(5.9)	(3.5)
Aggregate				647.0	209	7	10.1	NA	(25)	38.6	NA	(14)			

Source: Company, HSIE Research

	NET SALES (Rs mn)			EBITDA Margin (%)			APAT (Rs mn)			Adj. EPS		
	2Q FY21E	QoQ (%)	YoY (%)	2Q FY21E	QoQ (bps)	YoY (bps)	2Q FY21E	QoQ (%)	YoY (%)	2Q FY21E	1Q FY21	2Q FY20
AUTO ANCS												
Amara Raja	15,412	34	(9)	16.1	286	(114)	1,462	133	(33)	8.6	3.7	12.8
Endurance	16,677	177	(6)	15.9	881	(53)	1,739	NA	3	12.4	(1.8)	12.0
Subros	4,987	576	0	9.5	NA	63	187	NA	41	2.9	(3.7)	2.0
Gulf Oil	3,830	59	(9)	15.5	496	(247)	399	132	(36)	8.0	3.5	12.4
LOGISTICS												
CONCOR	14,481	22	(17)	19.3	593	(517)	1,623	163	(48)	2.7	1.0	5.2
Gateway Distripark	2,903	15	(11)	21.5	(614)	(48)	81	(27)	(52)	0.7	1.0	1.6

Source: Company, HSIE Research

COMPANY	2QFY21 OUTLOOK	WHAT'S LIKELY	KEY MONITORABLES
Ashok Leyland	WEAK	<ul style="list-style-type: none"> Volumes for the quarter came in at 19.4k units vs. 3.8k units QoQ, 28.9k units (-33% YoY). However, LCV volumes are down merely 5% YoY. EBITDA margin is expected at 5.2% (-62bps YoY). The co reported an EBITDA loss in the previous quarter. We expect the company to report a loss of Rs 122mn vs. Rs 3.8bn QoQ. 	<ul style="list-style-type: none"> Market share gains in the LCV segment – new product response AL's diversification initiatives
Bajaj Auto	AVG	<ul style="list-style-type: none"> Volumes in the quarter are up 138% QoQ, (-10% YoY) Operating margins at 15.2% to expand +190bps QoQ (-140bp YoY) PAT at Rs 10bn to improve QoQ (Rs 5.2bn); decline by 26% YoY 	<ul style="list-style-type: none"> Outlook on exports, particularly to the African continent Recovery trends in the Indian market
Eicher Motors	AVG	<ul style="list-style-type: none"> We expect revenue at Rs 20bn vs Rs 8bn QoQ; (-7% YoY) EBITDA margin at 22%, -250bp YoY PAT decline of 20% YoY to Rs 4bn. The co reported a loss of Rs 552mn in the previous quarter. 	<ul style="list-style-type: none"> Demand outlook in the semi-urban areas, where new format stores have opened up Timelines on new product introduction (Meteor) Impact of competition (new Honda Highness launch)
Escorts	GOOD	<ul style="list-style-type: none"> Tractor volumes grew by 24/35% YoY/QoQ We expect margins to improve YoY by 190bps to 14%, (+25bps QoQ) PAT growth of 15% YoY, 41% QoQ 	<ul style="list-style-type: none"> Progress/plans of the recently commissioned plant with Kubota Impact of agri reforms on the farm segment
Hero MotoCorp	GOOD	<ul style="list-style-type: none"> Two-wheeler volumes are up 7% YoY We expect the margin at 12.8%, vs. 3.6% margin QoQ, (-175bps YoY) PAT to come in flat YoY at Rs 9.2bn, (Rs 613mn QoQ) 	<ul style="list-style-type: none"> Market share trends in the premium segment post the launch of the Xtreme 160cc Festive season expectations and current inventory levels
Mahindra	AVG	<ul style="list-style-type: none"> Revenue to remain flat YoY. Total volumes fell by 3% YoY owing to a 23% drop in auto volumes, which was offset by strong tractor sales (+30%) EBITDA margin at 13.8% to contract by 30bps YoY, (+350bps QoQ) PAT decline of 24% YoY to Rs 10bn (Rs 389mn QoQ) 	<ul style="list-style-type: none"> Outlook for tractors in 2H Amidst rising competition in the SUV segment, updates on our product strategy Recovery in LCV business
Maruti Suzuki	GOOD	<ul style="list-style-type: none"> We expect revenues to grow by 16% YoY owing led by similar growth in volumes EBITDA margin of 9%, -45bp YoY (EBITDA loss of Rs 8.6bn QoQ) PAT to grow by 11% YoY to Rs 15bn (Loss of Rs 2.4bn QoQ) 	<ul style="list-style-type: none"> Demand trends – particularly that of entry-level cars New product introduction timelines

COMPANY	2QFY21 OUTLOOK	WHAT'S LIKELY	KEY MONITORABLES
Tata Motors	WEAK	<ul style="list-style-type: none"> Standalone: Volumes grew by 5% YoY. We expect standalone revenues to grow by ~9% YoY to Rs 108bn (Rs 27bn QoQ). EBITDA margin of 1.5% vs loss YoY as well as QoQ. We expect a loss of Rs 11bn vs loss of Rs 21/13bn QoQ/YoY 	<ul style="list-style-type: none"> India business outlook – market share gains in the PV segment, recovery trends in the CV segment JLR – recovery trends in China and ROW
Amara Raja Batteries	AVG	<ul style="list-style-type: none"> We expect revenues to decline by 9% YoY, +34% QoQ EBITDA margin at 16.1% to decline by 115bps YoY, +285bps QoQ PAT decline of 30% to Rs 1.4bn (Rs 627mn QoQ) 	<ul style="list-style-type: none"> Replacement market recovery trends Initiatives to expand beyond conventional LAB segment
Endurance Technologies	GOOD	<ul style="list-style-type: none"> We expect a revenue decline of 6% YoY to Rs 16.6bn (Rs 6bn QoQ) EBITDA margin at 15.9% to contract by 50bps YoY, +880bps QoQ PAT at Rs 1.7bn to grow by 3% YoY (Loss of Rs 259mn in 1QFY21) 	<ul style="list-style-type: none"> Status of integrating the overseas technology (braking systems) Outlook on industry growth trends
Subros	WEAK	<ul style="list-style-type: none"> We expect revenues to be flat YoY at Rs 4.9bn (Rs 738mn QoQ) Operating margin to expand by 60bps YoY to 9.5% (EBITDA loss of Rs 299mn in 1QFY21) We expect PAT to grow by 40% to Rs 187mn (Loss of Rs 240mn in 1QFY21) 	<ul style="list-style-type: none"> Expectations for demand pick up in the passenger vehicle segment The demand outlook for the home AC business
Gulf Oil	AVG	<ul style="list-style-type: none"> We expect revenues decline by 9% YoY, +59% QoQ Operating margin at 15.5% to contract by 250bps YoY, +500bps QoQ We expect PAT decline of 36% YoY 	<ul style="list-style-type: none"> Volume outlook in the DEO segment RM price trends as oil prices remain benign
CONCOR	WEAK	<ul style="list-style-type: none"> Volumes in 2Q declined 8.6% YoY. We expect sales to decline 17% YoY, +22% QoQ EBITDA margin is expected at 19.3% (-500bps YoY, +590bps QoQ) We expect PAT to decline by 48% YoY to Rs 1.6bn. 	<ul style="list-style-type: none"> Revised timelines on commissioning of the DFC Update on divestment initiatives by the government
Gateway Distriparks	WEAK	<ul style="list-style-type: none"> We expect consolidated revenues to decline by 10% YoY, +15% QoQ Operating margin at 21.5% to contract by 50bps YoY and 600bps QoQ We expect profit to fall to Rs 81mn (vs. Rs 170mn YoY, Rs 111mn QoQ) 	<ul style="list-style-type: none"> Post fundraising, timelines for merging of subsidiaries Update on Snowman Logistics stake sale now that the deal with Adani has been called off

Source: HSIE Research

Change in estimates and TP

Coverage companies	Reco	Old TP *	New TP ^	Old target multiple	New target multiple	Old EPS			New EPS			% change		
						FY 21E	FY 22E	FY 23E	FY 21E	FY 22E	FY 23E	FY 21E	FY 22E	FY 23E
Ashok Leyland #	REDUCE	57	71	-	10x	0.6	3.5	4.7	0.4	3.6	4.8	-30	2	3
Bajaj Auto	ADD	3,120	3,230	18x	18x	144.3	166.0	194.0	139.7	165.3	193.1	-3	-0	-0
Eicher	REDUCE	1,802	1,980	23x core business	23x core business	53.0	72.8	90.9	53.5	75.6	94.4	1	4	4
Escorts	ADD	1,200	1,290	16x	16x	54.1	71.1	85.0	56.3	74.1	87.4	4	4	3
Hero Moto	BUY	3,100	3,800	19x	20x	124.9	156.4	182.5	137.6	172.0	207.4	10	10	14
M&M	ADD	610	675	14x core business	14x core business	27.5	35.3	41.9	27.9	35.7	42.2	1	1	1
Maruti	BUY	6,980	8,160	25x	27x	145.9	261.6	330.9	149.3	266.8	337.1	2	2	2
Tata Motors #	ADD	118	155	9x Standalone	10x Standalone	-29.7	-0.5	9.8	-30.8	-0.7	10.5	4	25	7
Amara Raja	ADD	780	815	19x	19x	28.8	38.9	47.0	28.8	38.9	47.0	-	-	-
Endurance	BUY	1,085	1,260	26x	28x	26.9	39.5	48.5	27.4	40.8	49.2	2	3	2
Subros	ADD	220	260	19x	21x	2.8	10.6	14.4	2.9	10.2	14.7	5	-4	2
Gulf Oil	BUY	760	790	20x	20x	30.6	36.5	42.8	30.4	36.3	42.5	-1	-1	-1
CONCOR	ADD	400	410	22x	22x	10.6	16.5	22.0	10.4	16.0	21.4	-2	-3	-3
Gateway Distriparks #	BUY	125	125	8.5x Rail business	8.5x Rail business	2.2	4.4	6.7	2.2	4.4	6.7	-	-	-

Source: Company, HSIE Research, #valued on EV/EBITDA, *Jun-22 TP, ^Sep-22 TP

Valuation summary

	Mcap (Rs bn)	CMP (Rs/sh)	Reco	TP (Rs)	Adj EPS (Rs/sh)			P/E (x)			RoE (%)			EV/EBITDA (x)		
					FY 21E	FY 22E	FY 23E	FY 21E	FY 22E	FY 23E	FY 21E	FY 22E	FY 23E	FY 21E	FY 22E	FY 23E
AUTOS																
Ashok Leyland	223	76	REDUCE	71	0.4	3.6	4.8	179.4	21.3	15.7	1.7	13.7	16.9	29.4	12.3	9.3
Bajaj Auto	885	3,060	ADD	3,230	139.7	165.3	193.1	21.9	18.5	15.8	19.4	20.9	22.1	17.9	14.5	11.9
Eicher	60	2,218	REDUCE	1,980	53.5	75.6	94.4	41.4	29.3	23.5	13.8	17.3	18.7	29.4	21.8	17.1
Escorts	150	1,222	ADD	1,290	56.3	74.1	87.4	21.7	16.5	14.0	13.5	14.1	14.5	14.5	10.9	8.6
Hero Moto	664	3,327	BUY	3,800	137.6	172.0	207.4	24.2	19.3	16.0	18.6	21.0	22.3	17.1	13.4	10.7
Mahindra	755	633	ADD	675	27.9	35.7	42.2	22.7	17.8	15.0	9.3	11.0	11.9	13.1	10.2	8.5
Maruti	2,133	7,062	BUY	8,160	149.3	266.8	337.1	47.3	26.5	20.9	9.0	14.8	16.7	32.8	18.2	13.6
Tata Motors	498	138	ADD	155	(30.8)	(0.7)	10.5	NA	NA	13.2	NA	NA	7.0	6.5	4.2	3.4
AUTO ANCS																
Amara Raja	127	741	ADD	815	28.8	38.9	47.0	25.7	19.0	15.8	12.8	15.4	16.3	13.0	10.1	8.2
Endurance	152	1,080	BUY	1,260	27.4	40.8	49.2	39.4	26.4	21.9	12.2	16.2	17.0	17.0	12.5	10.4
Subros	16	239	ADD	260	2.9	10.2	14.7	81.2	23.3	16.2	2.5	8.4	11.1	13.3	8.3	6.3
Gulf Oil	32	639	BUY	790	30.4	36.3	42.5	21.0	17.6	15.0	19.0	20.5	21.5	11.8	9.7	8.0
LOGISTICS																
CONCOR	225	370	ADD	410	10.4	16.0	21.4	35.7	23.2	17.3	6.2	9.2	11.8	18.1	12.8	9.7
Gateway	10	96	BUY	125	2.2	4.4	6.7	43.9	21.6	14.3	2.0	3.8	5.5	7.7	6.5	5.1

Source: HSIE Research *CMP as of 9th Oct-20

2QFY21 Volume Summary

Volumes in units	2QFY21	1QFY21	2QFY20	% QoQ	% YoY
Ashok Leyland	19,444	3,814	28,936	410	(33)
- MHCV	7,936	1,021	16,813	677	(53)
- LCV	11,508	2,793	12,123	312	(5)
Bajaj Auto	1,053,337	443,103	1,173,591	138	(10)
- 2W	964,465	399,929	984,240	141	(2)
- CV	88,872	43,174	189,351	106	(53)
Eicher	158,686	59,398	177,959	167	(11)
- 2W	150,519	57,269	166,589	163	(10)
- CV	8,167	2,129	11,370	284	(28)
Escorts	24,441	18,150	19,750	35	24
Hero Motocorp	1,814,683	563,426	1,691,420	222	7
Maruti	393,130	76,599	338,317	413	16
M&M	185,270	95,308	191,390	94	(3)
- Auto	92,024	29,651	119,570	210	(23)
- Tractors	93,246	65,657	71,820	42	30
Tata Motors	110,379	25,047	105,031	341	5
- PV	54,892	14,571	26,429	277	108
- CV	55,487	10,476	78,602	430	(29)
TVS	853,474	266,883	733,073	220	16
- 2W	834,346	255,378	685,408	227	22
- 3W	19,128	11,505	47,665	66	(60)
CONCOR (in TEUs)	885,673	732,711	969,158	21	(9)

Source: SIAM, Company, HSIE Research

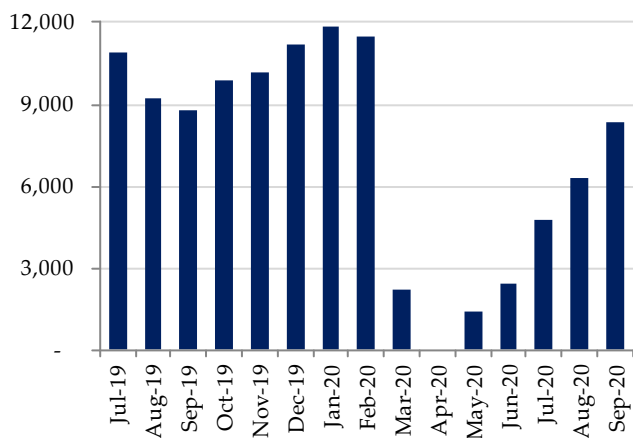
Volume Assumptions – Annual estimates (in units)

Company		FY18	FY19	FY20	FY21E	FY22E	FY23E
Ashok Leyland	Total volumes	174,851	197,366	125,250	99,314	117,242	137,301
	% YoY	21	13	(37)	(21)	18	17
Bajaj Auto	Total volumes	4,006,788	5,018,712	4,615,212	3,871,775	4,262,591	4,765,438
	% YoY	9	25	(8)	(16)	10	12
Eicher RE	Total volumes	820,493	823,828	696,052	593,604	678,824	782,341
	% YoY	23	0	(16)	(15)	14	15
Escorts	Total volumes	80,405	96,412	86,017	95,102	102,939	112,507
	% YoY	26	20	(11)	11	8	9
Hero Motocorp	Total volumes	7,587,193	7,820,831	6,409,719	5,628,877	6,232,836	6,919,219
	% YoY	14	3	(18)	(12)	11	11
M&M	Total volumes	868,132	938,546	779,809	717,947	790,017	872,145
	% YoY	13	8	(17)	(8)	10	10
Maruti Suzuki	Total volumes	1,779,574	1,862,449	1,563,297	1,330,846	1,527,806	1,753,990
	% YoY	13	5	(16)	(15)	15	15
Tata Motors	Total volumes	641,133	732,739	473,502	402,998	458,918	562,837
	% YoY	17	14	(35)	(15)	14	18
CONCOR*	Total volumes	3,531,900	3,829,419	3,747,758	3,167,799	3,828,155	4,670,332
	% YoY	14	8	(2)	(15)	21	22

Source: SIAM, Company, HSIE Research, *volumes in TEUs

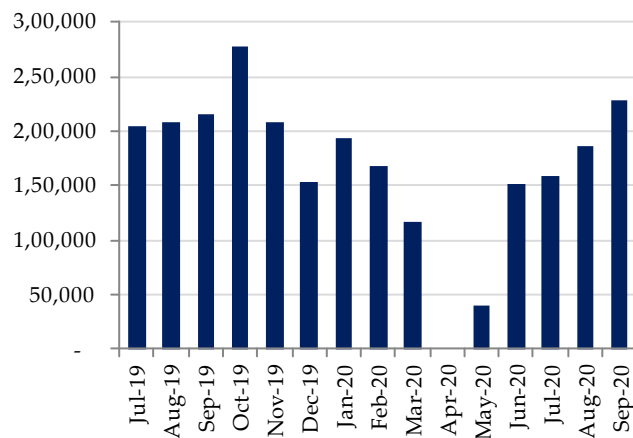
Monthly volumes (in units)

Ashok Leyland: Demand is supported by a pickup in LCV volumes



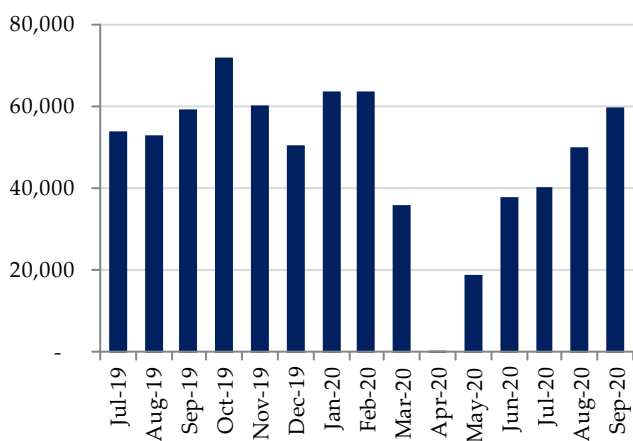
Source: SIAM, Company, HSIE Research

Bajaj Auto: Pick-up in 2W volumes including exports



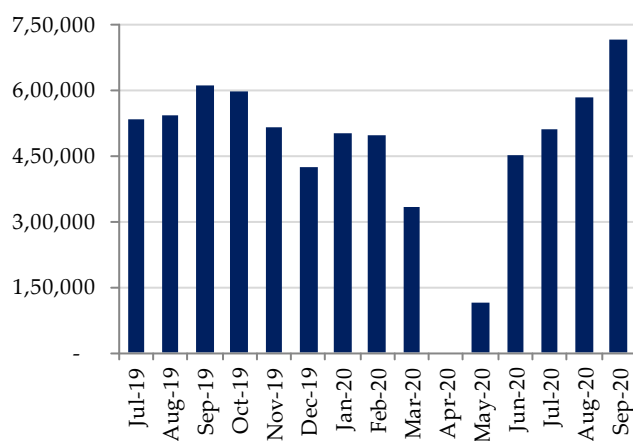
Source: SIAM, Company, HSIE Research

Royal Enfield: Sales pickup due to pent-up demand



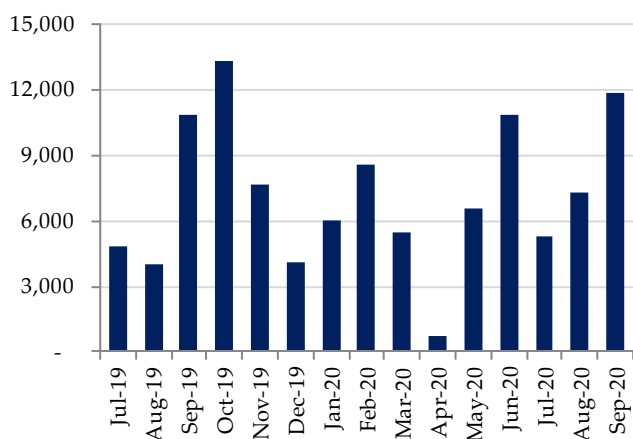
Source: SIAM, Company, HSIE Research

Hero: Volumes have risen led by rural offtake



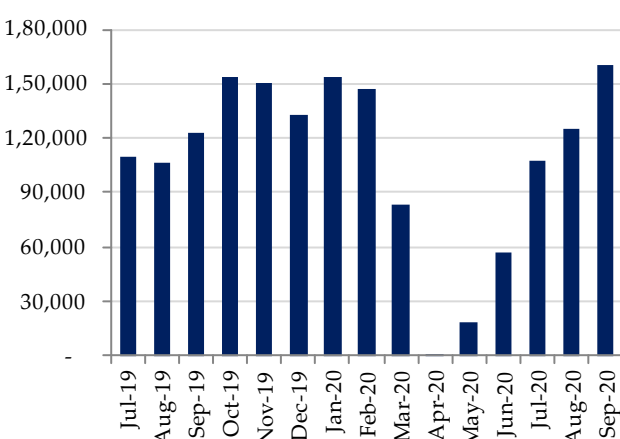
Source: SIAM, Company, HSIE Research

Escorts: Tractors sales back at YoY levels

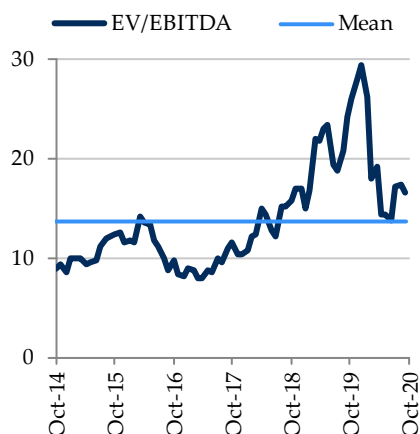
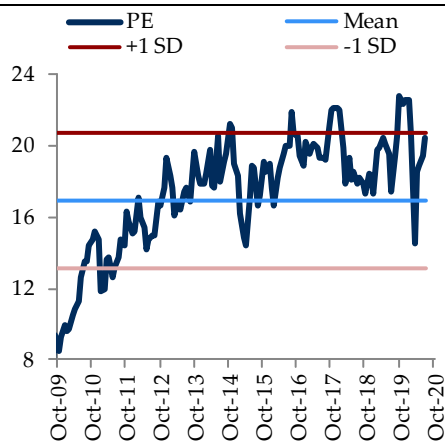
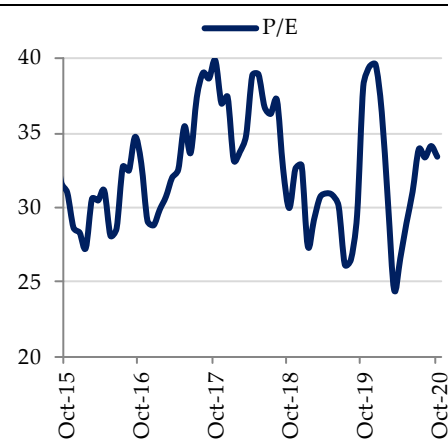


Source: SIAM, Company, HSIE Research

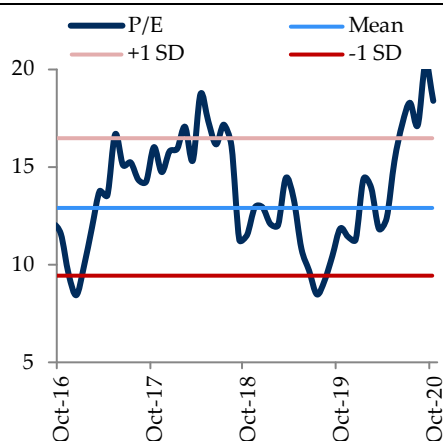
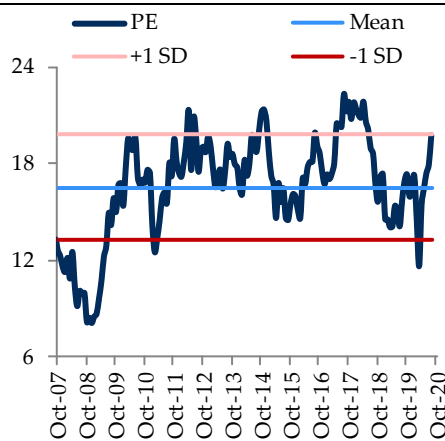
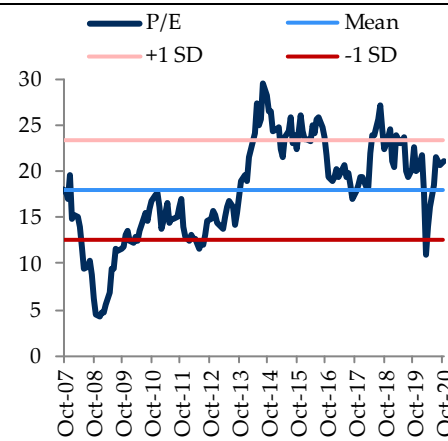
Maruti Suzuki: Entry-level cars witnessing healthy demand



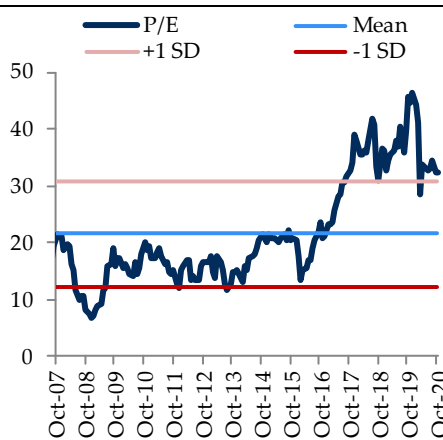
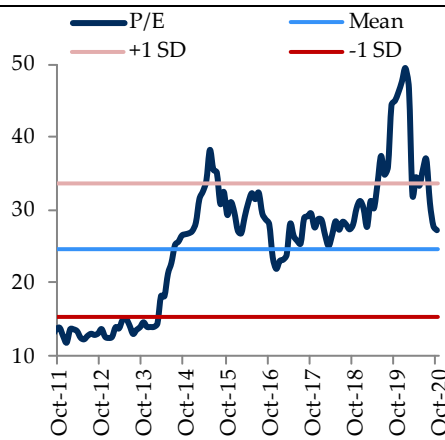
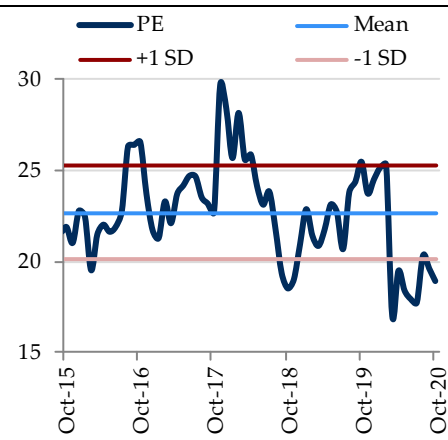
Source: SIAM, Company, HSIE Research

Ashok Leyland 1-yr forward EV/Ebitda

Bajaj Auto 1-yr forward P/E band

Eicher Motors 1-yr forward P/E band


Source: Bloomberg, Company, HSIE Research

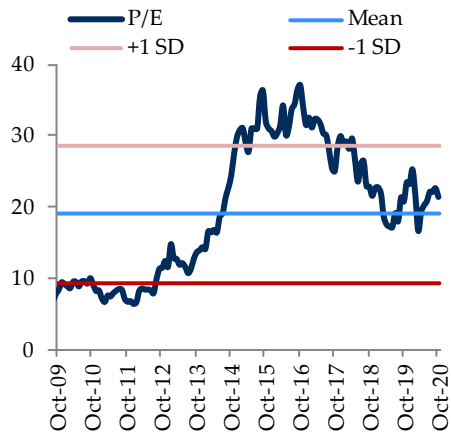
Escorts 1-yr forward P/E band

Hero Motocorp 1-yr forward P/E band

M&M 1-yr forward P/E band


Source: Bloomberg, Company, HSIE Research

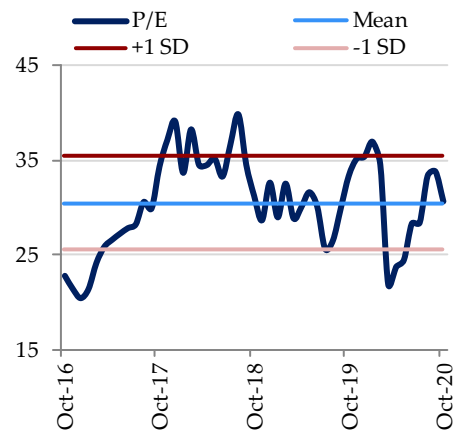
Maruti Suzuki 1-yr forward P/E band

CONCOR 1-yr forward P/E band

Gulf Oil 1-yr forward P/E band


Source: Bloomberg, Company, HSIE Research

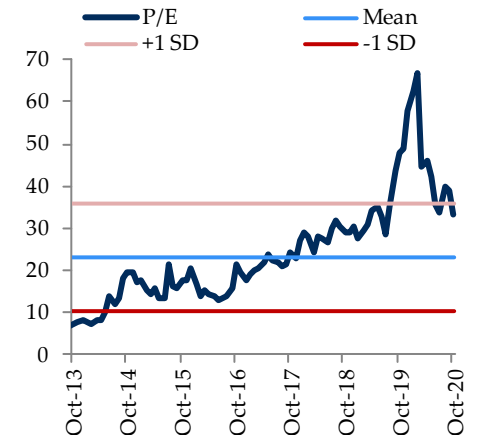
Amara Raja 1-yr forward P/E band



Endurance 1-yr forward P/E band



Subros 1-yr forward P/E band



Source: Bloomberg, Company, HSIE Research

Rating Criteria

BUY: >+15% return potential
 ADD: +5% to +15% return potential
 REDUCE: -10% to +5% return potential
 SELL: > 10% Downside return potential

Disclosure:

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