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India | Equity Research | Sector Update

Automotives

Premium cars continue to shine; CV demand is stabilising

We recently interacted with dealers of Maruti Suzuki, Honda Cars and Tata Motors CVs in and around the city of Kochi (in Kerala). Key takeaways from our dealer interactions include: 1) Value-for-money SUVs continue to drive retail demand, where customers are ready to pay in excess of INR 1.2mn on-road prices; 2) hybrid-model demand is being driven by status quotient of owning environment-friendly model and not unit economics; 3) demand for entry-level hatchbacks and sedans continues to be subdued, operating with higher discounts and elevated inventory; 4) M&HCV demand is growing at a lower rate of sub-10%, and SCV demand remains flattish YoY. Freight rates are slightly lower led by rising competition. Discounts are down ~8-10% in the past 1 year, putting TTMT market share under pressure.

NEXA: Driving turnaround for MSIL

We met MSIL dealers, both for NEXA and Arena, and situation seems to be poles apart for them. Inventory levels in NEXA outlets seem pretty much under control on an overall basis with Ignis inventory being as high as ~50-60 days vs rest of the portfolio operating on waiting basis. Supply of Fronx is improving every month and dealer is expecting to drive full year overall retails growth by ~85% YoY. Despite the strength of Jimny, being a 5-door light weight all-wheel drive model with easy manoeuvrability, INR 1.5mn on road price vs Thar RWD at similar price, the dealer is expecting limited target market for it. Barring Ignis, there is no discount on the rest of models. Retails in Apr-Jun'23 were at an average of ~160 units p.m., with Jul'23 at 220 units and Aug'23 at ~320 (led by Onam). This is likely to remain above ~220 units p.m. for the rest of the year, driving annual volume out of dealership to ~2.5-3k units.

Arena: Going through a tough phase, no reprieve visible

Arena outlets, retailing the weaker models of CSK (Celerio, S-Presso and K-10), are operating at inventory levels of 45+ days. With key festive season of Onam being over now, dealer is expecting inventory to come down by Oct'23 end to ~35 days led by lower offtake. Demand for Swift and Brezza remains steady vs weak CSK brands, resulting in much lower discounts for them vs CSK models (overall benefits as high as ~8-10%). Dealer is expecting hefty Onam special discounts to normalise down in Sep-Oct'23 along with inventory rationalisation. They are expecting overall volume for the year to be at best flat as CSK models continue to witness subdued retail demand for more than a year now.

CVs: Tippers driving demand; weak haulage and SCVs

As per Tata Motors' CV dealer, within M&HCVs, tippers are doing well as against flattish demand for haulage and cargo models (container carriers). Freight rates have seen slight pressure in recent months with rising supply and competition and thus fleet owner profitability has eroded slightly, though is still profitable. Bulk carrier mix in the market is now ~70% vs ~50% mix in earlier cycles. Goods M&HCV discounts by TTMT has come down from ~15% of MRP levels to ~5-8% amidst no price hikes (barring regulatory hikes) in the past 1-year and that has partly cost in terms of market share, too. SCV demand is steady, and TTMT has launched its EV SCV recently on a pilot basis.

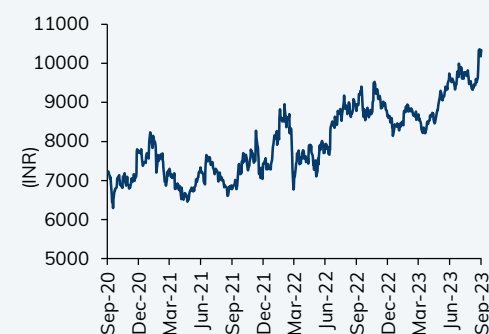
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MSIL (ADD)



Source: Bloomberg

TTMT (ADD)



Source: Bloomberg

Key takeaways from our dealer interactions across Kerala:

- NEXA** retail sales for the dealer are set to grow 80-100% YoY across the outlets driven by Fronx with continued strong demand for Baleno and XL6. Ignis is going through tough times with elevated discounts and almost 2 months of inventory and would witness lower offtake in coming months to ease the inventory situation. Jimny is having lower-than-expected traction and would see limited retail demand incrementally ahead. Typically, one sales person is assigned with the target of retailing 5 car sales a month and he/she is pretty much on course to achieve the target this fiscal with a sales force of ~30 people. Replacement buyers are contributing ~40% of demand with multiple car owners at ~15%, implying ~45% of car sales are being driven by first-time buyers.
- Arena** is going through a tough phase with weak models of CSK (Celerio, S-Presso and K-10) operating with 45+ days inventory and attracting higher discounts subsequently. Brezza and Swift's retail demand has remained steady and is expected to remain strong going ahead, too. Dealer is expecting full fiscal year retail volume to remain flat at best on YoY basis as Q1FY24 has been subdued, especially for lower-end models and would be tough to make up in coming months looking at the current trend of retail demand for its portfolio. As per dealer, the 30-40% jump for entry/mid end car prices in last 3-4 years has resulted in cost conscious target market going on the back foot and not replacing its models.
- Honda car dealer** was upbeat on the back of Elevate launch, as post retailing there was hardly ~60 units p.m. in the past 12 months on an average, it increased to ~120 units in Aug'23 (partly driven by Onam). With supply of Elevate set to improve going ahead, as committed by Honda, dealer is confident of delivering ~100+ cars p.m. going ahead. Demand for City and Amaze remains static and may not change much in the foreseeable future as demand of mid/small sized SUVs has been impacting the sedan segment in the market for long. Elevate is offering a 4.3mt SUV with 1.5ltr petrol engine at on-road price of ~INR 2mn for the top end automatic model, which we believe is definitely a good value proposition.
- Tata Motors' CV** dealer highlighted that the freight rates for bulk carriers have been slightly soft in recent months on the back of rising competition with increasing supply amidst limited increase in demand for cargo/haulage trucks. Tipper demand remains strong, led by infra activities and highway-related work. Replacement-led demand is contributing ~30% of demand now and has scope for improving further and cushioning demand. Though there have not been any price hikes by TTMT for its M&HCVs in recent months, discounts have been falling gradually, resulting in on-road price increase of ~10-12%. This has resulted in a slight market share loss for TTMT. In SCVs, demand remains flattish. The recently launched EV model (equivalent to 750kg GVW ACE) is priced at INR 1mn on road, ~15% higher than the diesel version and ~5% higher than the CNG version. With range of ~120km, the model is currently sold on pilot testing basis in select markets and is under continued observation in terms of its performance. Intra range of SCVs is currently doing well, better than ACE and contributes ~50% of SCV sales. Dealer is expecting Prima range of models to get extended across categories in goods cargo/haulage categories too, beyond heavy tractors and tippers, driving up the market share.

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