

March 27, 2024

**SECTOR UPDATE** | Sector: Automobile

# Automobile Channel Check

## Festive timing mismatch to dent retails (ex 2W)

### Key Pointers for Mar'24:

- **2Ws** - Gudi Padwa festive retails expected to grow in key markets.
- **PVs** - No substantial change in demand trends vs prior months; average discounts rise across segments MoM.
- **CVs** - Double digit retail drop expected YoY led by high base due to OBD2; tonnage shift stays favorable.
- **Tractors** - Festive timing mismatch aggravates inherent weakness.

Our interaction with channel partners hints at weak retail demand for Mar'24 YoY: Low to mid-single digit growth for 2Ws, while high single to double digit decline for PV, CV and tractors. The base is not comparable given the festive timing mismatch for Gudi Padwa (key for MH and GJ) and Chatri Navratri (key for MP, RJ and north states). Having said that, within 2Ws, semi-urban/rural growth continue to beat urban growth, upcoming festive growth likely to be moderately positive. In EV 2Ws, TVS is offering flat discounts of Rs6k/unit and discounted warranty schemes in response to recent price cuts by peers. In PVs, current demand trends mirror prior month patterns, and the persisting weakness will cause a spike in average discounts by 10-30% MoM and near to peak discounts in a few segments. CV segment inventory is likely to stabilize at ~23-25 days, partly led by inventory restocking ahead of price hike expected in Apr'24 while tonnage shift stays favorable. Discounts increased MoM by 2-3% (vs price hike of 1-1.5% in Feb'24), ensuring continued healthy net pricing.

**Key wholesale expectations** - MSIL at ~205k (-21% YoY/ +4% MoM), AL at ~24.2k (+1.1% YoY/ +38.6% MoM), Royal Enfield at 78.5k (+8.7% YoY/ +3.4% MoM).

**Top Picks** - TTMT (BUY), TVS (ADD), BJUAT (ADD) among OEMs and EXID (BUY), MOTHERSO (BUY) and ENDU (ADD) among ancillaries.

### Exhibit 1: Volume estimate for Mar-24

Company Sales	YoY			MoM		YTD		
	Mar-24	Mar-23	YoY (%) chg	Feb-24	MoM (%) chg	FY24 YTD	FY23 YTD	(%) chg
Maruti Suzuki	205,400	170,071	20.8	197,471	4.0	2,153,527	1,966,164	9.5
M&M	107,950	101,105	6.8	94,595	14.1	1,214,333	1,106,001	9.8
Automotive	75,650	66,091	14.5	72,923	3.7	829,671	698,456	18.8
Tractors	32,300	35,014	(7.8)	21,672	49.0	384,662	407,545	(5.6)
Tata Motors	93,000	91,048	2.1	86,406	7.6	969,781	954,626	1.6
CV's	40,000	46,823	(14.6)	35,085	14.0	393,583	413,539	(4.8)
PV's	53,000	44,225	19.8	51,321	3.3	576,198	541,087	6.5
Hero MotoCorp	565,000	519,342	8.8	468,410	20.6	5,734,990	5,328,546	7.6
Bajaj Auto	371,000	291,567	27.2	346,662	7.0	4,356,029	3,927,662	10.9
Ashok Leyland	24,200	23,926	1.1	17,464	38.6	196,019	192,205	2.0
TVS Motor	390,500	317,152	23.1	368,424	6.0	4,226,902	3,682,068	14.8
Eicher Motors								
Royal Enfield	78,500	72,235	8.7	75,935	3.4	915,681	834,895	9.7
VECV	12,305	11,906	3.4	7,446	65.3	86,618	79,623	8.8
Escorts	9,250	10,305	(10.2)	6,481	42.7	96,521	103,290	(6.6)

Source: SIAM, YES Sec

### YES Sec coverage Summary

Stock	Rating	TP
Ashok Leyland	ADD	205
Bajaj Auto	ADD	7,921
Bharat Forge	BUY	1,328
CEAT	NEUTRAL	2,982
Eicher Motors	BUY	4,631
Endurance	ADD	2,206
Escorts	NEUTRAL	2,882
Exide Industries	BUY	377
Hero MotoCorp	ADD	5,577
M&M	ADD	1,931
Maruti Suzuki	ADD	11,700
Samvardhan Motherson	BUY	139
Tata Motors	BUY	879
TVS Motors	ADD	2,193
Sona BLW	ADD	684

Source - YES Sec

Note - Target prices are based on last update released.

### DEEP SHAH

Lead Analyst

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“The premium segment has probably grown at 20% per annum in the last two years and that is not just emanating from cities, but parts of so-called rural areas as well. So, I do not think one should link two-wheelers to only the rural part of it, I think that is passé.”

**Niranjan Gupta,**  
CEO, Hero MotoCorp

## 2W: Gudi Padwa festive retails could be flat to positive in key markets

- We expect 2W retails to grow by low-mid single digit in Mar'24 YoY, as retail offtake has sustained in key markets of west, central and north and east (albeit en route a slow recovery). However, volumes from south are underperforming other markets partly due to high base. Overall sentiments are turning favorable in rural areas too, with rural/tier-2 growth outshining urban markets. We had indicated the same trend in Jan'24 and Feb'24. We expect domestic 2W wholesales to clock healthy 9-24% growth YoY across major OEMs (ex RE where we expect degrowth of ~1%).
- Feedback from key 2W markets – 1) MH – Gudi Padwa festive retails are expected to be flat in Maharashtra (vs decline of 8-10% in Mar'23) to mid-single digit growth in Gujarat (festive to festive). Growth rates from rural/ tier 1 catchments is outpacing urban for third month in a row by 6-8%. We note, mid-single digit to flat volume growth on YoY basis in Pune while the same from Pimpri-Chinchwad (PCMC) was at 10-12% YoY. Our interaction in other key markets do not reflect the same trend though. 2) Gujarat – Both urban and rural growth remain at par, partly led by shift back from EV to ICE benefitting urban growth, apart from a genuine uptick in rural demand. 3) MP – Growth at par both in rural and urban/ tier 1 regions. Some uptick in retails for entry level segments has been observed during festive season, which appears sustained led by positive rural sentiments (currently positive due to elections) and marriage season demand.
- Inventory levels mostly optimum - 2W inventory have declined by ~2 weeks from pre festive to average ~3 weeks in Dec'23 (v/s ~5-6 weeks in Nov'23) across major OEMs. It is expected at ~3-4 weeks in Feb'24 (flat vs Jan'24), led by limited channel push. However, some market like Maharashtra is indicating increase in stocking ahead of Gudi Padwa festival in first half of Apr'24. OEM wise inventory trends across HMCL, TVSL and BJAUT stand at ~3-4 weeks (v/s flat MoM) and ~20 weeks at RE (v/s flat).
- Sales boost from TVSL (for Ronin) and RE (across brands) – According to key channel partners, significant marketing boost from TVSL has resulted in average volume run-rate for Ronin up 2x (retails). Even RE is now pursuing aggressive marketing (both print and digital), for dip brand penetration across its portfolio. As a strategic move to gain market share, TVSL have reduced Jupiter 125 prices by Rs6k/unit in Gujarat (vs other neighboring states). We see this as a strategic move.
- EVs – Competition has responded to recent price cuts by OLA – Leading channel partners from Maharashtra (MH) and Gujarat contend that declining retail intensity for EVs and resultant shift back to ICE is largely benefitting listed players. While customer response to recent sharp cut in EV prices are yet to be determined, stability in fuel and product prices (of ICE), are key triggers. Led by aggressive price actions, TVS iQube is offered with flat discounts of Rs6k/unit, plus another Rs10k/unit on purchase through credit cards and extended warranty price have been reduced to Rs1k/unit from Rs4k/unit earlier.

“We had seen a very strong growth in FY23 of 25%, which is likely to moderate in FY24 to about 8%. Therefore, we are seeing with this high base effect, and FY25 will be slightly challenging with less than 5% growth rate.”

**Shailesh Chandra,**  
MD,  
Tata PVBU

## PV: No major change in demand trends of prior months

- Our channel check suggests PV retails to decline by 10-12% in Mar'24 led by inauspicious days of Holi where retails are generally slow with festive timing mismatch. Adjusting for the same, the demand commentaries are mixed; they have softened for the fourth consecutive month in Mar'24.
- Key markets like Maharashtra have indicated a decline of 10-12% (partly led by postponement of deliveries due to Gudi Padwa festive offtake in Apr'24) while South moderated to flattish to mid-single digit growth (v/s high single digit growth). The pace of retails in other key regions such as Rajasthan and Gujarat too have declined led by growing cancellations even on premium portfolio.
- Diverse demand trends for MSIL in NEXA and Arena channel – Our interaction with leading channel partners in South India hint at flat growth in retails YoY. However, retails from Arena

declined by 4-5% while the same for Nexa grew >50%. Similar observation is also valid for the key northern markets like Jaipur where bookings/retails for Nexa declined by -19%/-17% while that for Arena declined by -6/-20%.

- **Inventory levels are comfortable at ~20-22 days in Southern markets (expect to take to ~30 days by end of Mar'24)** while for North/West it remains slightly higher at ~25-28 days.
- **CNG salience improving for Southern PV markets as highlighted in our Feb'24 note** – Southern markets so-far are pre-dominantly petrol/diesel driven with lesser preference for CNG (partly led by lack of infrastructure of CNG pumps). However, with CNG infra availability going up, the state is seeing increasing contribution which should drive volumes and help MSIL given widest CNG portfolio. However, current CNG volumes contribution is 4-5% overall in southern region, while in the fleet segment, it has moved up to 8-10%. Fleet demand is significant in TN, AP vis-à-vis Kerala.
- **Waiting period close to nil across OEMs as supply outpaces demand** - Our checks suggest strong demand (along with restricted supply) of recent SUV launches has caused high waiting period for the industry; however, the same has declined materially as supply is now ahead of demand in most sub-segments, as per our channel checks. Fronx – Nil (v/s ~1-2 weeks in Dec'23, ~3 weeks in Nov'23, ~6-7 weeks in Sep'23) for manual and ~1 week for Auto (v/s ~1 month in Nov'23 and ~5 months in Sep'23), Ertiga – Nil in Mar'24 (v/s ~1 week in Feb'24, ~3 weeks in Dec'23, ~5 weeks in Nov'23, 12-14 weeks in Sep'23), Grand Vitara ~1 week (v/s flat MoM), Jimny is nil (v/s Nil in Feb'24, Nil in Dec'23, ~1 week in Nov'23, ~4 weeks Sep'23). Similarly, for M&M's XUV700 waiting period has come down to ~1 week in Mar'24 (v/s ~3 weeks in Dec'23, 4-5 weeks in Nov'23, 6-8 months in Sep'23), Scorpio N at ~2-3 weeks (v/s 2-3 months in Oct'23, >6 months earlier).
- **Average discounts drop MoM, led by seasonality effect**
  - **MSIL – ARENA** - On MoM basis, discount increased across variants in Petrol (by 11-30%). However, the same have declined for CNG and AGS trims (by 30-50%). Discounts in entry models of ARENA (WagonR, Spresso, Celerio) is near to peak discounts of Dec'23. On the fleet segment too, discount is highest ever reported in recent months, depicting slowdown even on commercial segments. Under NEXA post some normalization of discounts in Feb'24 (largely due to fresh channel stocks), NEXA too have witnessed sharp MoM increase in average discounts which is almost near to peak discounts reported in Dec'23.
  - **TTMT**- Benefits of up to Rs50-55k (v/s Rs45-50k in Feb'24, Rs20-30k in Jan'24, Rs50-60k MoM in Dec'23) for Tiago/Tigor, Altroz discounts at Rs15-20k (v/s Rs10k in Feb'24, Rs30k in Dec'23), Safari and Harrier is at Rs75 (v/s flat MoM, Rs150k in Dec'23). No discount on Nexon (new gen) while co have introduced scheme based discounts for the Punch for the first time since launch.
  - **MM** - Benefits of up to Rs30-45k (v/s flat MoM, Rs51-83k in Dec'23) for Bolero, Bolero Neo, Rs150-175k (v/s Rs90-150k MoM) for XUV 300. XUV 400 average discount now increased to Rs300-400k/unit for MY23 and Rs50k for MY24 (v/s flat/Nil MoM) to pave the way for new EV from the company's stable.

“Even if there is some small dent in Q4, the recovery will be very fast after the elections because all the fundamental macroeconomic factors favour the industry. The medium and long term looks very strong..”

**Shenu Agarwal,**  
MD and CEO,  
Ashok Leyland

## CV: Expect double digit retail decline YoY led by high base ahead of OBD2

- **We expect Mar'24 MHCV retails to decline by double digits YoY (v/s ~9% YoY growth in 11MFY24), partly due to high base (prebuy ahead of OBD 2 norms) and slowdown in spends ahead of general elections.** Led by upcoming general elections and in-line with expectations, the new tender based business (4-5% of overall volumes) has taken a pause while there no interruption for ongoing projects. End user segment such as Infra, FMCG, spare parts (supply chain), haulage, bulk material movement, ICVs and 2W carriers witnessed a better off-take. Overall fleet sentiment is neutral. **On the other hand, the Bus segment retails are expected to rise >15% MoM (and grow 1-1.5x YoY), led by sustained off-take due to seasonal demand.**

- The average dealer inventory is expected to be maintained at 3-3.5 weeks (v/s flat MoM, 1-1.5 month in Sep'23, ~1 month in Aug'23, ~25 days in July'23 and ~20 days in Jun'23). This will partially be supported by channel restocking by the channel partners ahead of expected price hike of 2-3% expected from Apr'24.
- **Net pricing stays healthy, albeit slight increase in average discounts MoM** - As per our checks in Mar'24, average discounts from AL, TTMT and VECV increased by 2-3% MoM (v/s flat in Feb'24, increase of 1-1.5% in Dec'23 with cumulative discount reduction of ~4-4.5% over past 6-8 months). Our interaction with channel partners also indicates price hike of ~1.1.5% on 2024 models being made effective from Feb'24 (v/s 2-3% indicated earlier) and another price hike of 2-3% expected from Apr'24. This would lead to further improvement in net pricing improvement for OEMs which is key positive for margins (already reflected in TTMT CV/ AL results with EBITDA margins of ~10-11% for 9MFY24).
- **Fleet utilization stable MoM at 75-80%** - As per our checks, overall freight rates did see a slight increase MoM. Freight availability too increased especially for the return load led by increased movement in sectors like consumption, white goods and agri segments. Consequently, fleet utilization stayed elevated at 78-80% (vs ~75% MoM) for the organized market.

## Tractors: Festive timing mismatch aggravate ongoing demand weakness

"We don't see the farm sales decline as rural distress. It's just part of the cycle right now. If you look at the sector from a longer-term standpoint, we're in pretty good shape and this is on par for the course from our perspective."

**Dr. Anish Shah,**  
ED and CEO (Auto and Farm),  
M&M

- We expect tractor industry retails volumes to decline 6-8% YoY. We have not heard any major announcement related to tractor and farm implements subsidy in Mar'24. Led by high base and festive timing mismatch (Chaitra Navratri), we expect 8-10% decline in dispatches for M&M and Escorts.
- **Key tractor and farm mechanization subsidy announced in March'24**
  - **Maharashtra (MH)** - The government has announced Mini Tractor Subsidy scheme (for female of reserved category) in which subsidy of max 90% (up to Rs315k/unit) can be availed of the tractor is purchased with implements such as Cultivator, Rotavator and Tractor Trailers.
  - **Haryana** - Subsidy of up-to 50% on purchase of >45HP tractors.
- **Key tractor and farm mechanization subsidy announced in January'24**
  - **Central government** - 1) **Subsidy on 4WD tractors** - Under its sub-Mission on Agricultural Mechanization (SMAM), the central government have announced subsidy of max 40-50% (max Rs5L) on purchase of 4 wheel drive (4WD) tractors. 2) **subsidy on 2WD tractors** - subsidy of 50% (up-to Rs2L) and 40% (up-to Rs2.5L) on purchase of 2WD tractor. 3) **Subsidy on paddy rice transplanters** - subsidy of 50% (up to Rs8L) for reserved category while 40% (up to Rs6.5L) for non-reserved category. 4) **Subsidy on Power tillers** - subsidy of 50% (up-to Rs1L) on purchase of up to 11BHP tillers and subsidy of 40% (up-up Rs80k) on purchase of >11BHP tillers. 5) Potato planter machine - up-to 50% subsidy in purchase of these machines which is costing Rs4-5.5L per unit.
  - **Madhya Pradesh (MP)** - Up-to 40-50% subsidy on purchase of Multicrop thresher, Reversible plough and Axial flow paddy thresher.
  - **Haryana** - up-to 50% (max Rs84k) subsidy announced on purchase of rotavators.
- **Key tractor and farm mechanization subsidy announced in December'23**
  - **Uttar Pradesh (UP)** - Under its agriculture mechanization scheme. UP government have announced ~40% subsidy on tractor purchase and farm implements such as land leveler machines, potato planters, cultivator power sprayers, rotavator, power tillers etc. The scheme is designed for farmers with an annual income less than Rs150k.
  - **Jharkhand** - Have announced tractor distribution scheme, under which in phase 1, the state government to provide ~50% subsidy on tractor purchase (for total ~1.1k units) and ~970 implements. Further, state government have also announced subsidy of Rs5k/acre under Mukhyamantri Krishi Aashirvaad Yojana.

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- **MP** – Subsidy of ~50% on Super Seeder/Happy Seeder implements. Further, under its agricultural equipment grant scheme, ~50% subsidy announced on multi crop thresher (>35bhp and capacity of >4 ton/hour), reversible plough.
- **Haryana** - ~50% subsidy announced on ~29 key implements under Krishi Yantra Anudaan Yojana.
- **Key tractor and farm mechanization subsidy announced in November'23**
  - **Assam** – Under its flagship tractor distribution scheme, subsidy of up-to 50% for farmers who have min 10 acre of farming land.
  - **Uttar Pradesh (UP)** – 1) Grant under agricultural protection equipment scheme to give ~50% subsidy on purchase of small agriculture equipment (valued up to Rs10k/unit) such as mechanical cutter and sprayers, pump sets etc. 2) **Beej Anudan Yojana** - ~50% subsidy on 5 different types of seeds for wheat farming. 3) **Agriculture mechanization scheme** – subsidy of up-to 80% (or max Rs400k/unit) on equipment price above Rs500k/unit and would cover equipment such as Tractors, Rotavators, Cultivators, Multi crop thrashers, paddy transplanters.
  - **Bihar** – Subsidy limits under agriculture mechanization scheme 1) Rs63k/unit on compost spreader machine 2) 50% (max Rs24k/unit) on tractor mounted sprayer 3) 60% (max Rs24k/unit) on tractor driven disc plough 4) 50% (max Rs625k/unit) on purchase of square baler machine 5) 50% (max Rs40k/unit) on purchase of raised bed planter machine. 6) 60% (max Rs30k/unit) on purchase of rotavator or rotary tillers. 7) 60% (max Rs180k/unit) on purchase of laser land leveler machine.
- **Key tractor and farm mechanization subsidy announced in October'23**
  - **Central government** – 1) PM kisan Yojana – The government intends to double subsidy to Rs12k/farmer (v/s Rs6k/farmer till date).
  - **Central government** – **Under the crop insurance scheme**, incentives of ~Rs30b covering ~25L farmers. Farmers growing cotton would get max of Rs36.3k/farmer, Corn Rs18.7k/farmer. SMAAM Yojana (Sub Mission on Agricultural Mechanization) where the planned subsidy outlay is from 50-80% on purchase of tractor, power tiller, combine harvester, tractor/self-driven machines and agri drones. Last month Pradhan Mantri Tractor Scheme 2023 announced subsidy of 50-80% on tractor and farm implements purchase for small and marginal farmers.
  - **Bihar** – **Under flagship Agri mechanization scheme**, 1) subsidy on Paddy thresher worth Rs100k/unit for engine capacity >5BHP for electric driven and >35BHP for tractor driver machines. For general category subsidy is capped at Rs80k/unit or 40% of price and for reserved category the same remain at Rs100k/unit or 50% of price. 2) Rs63k/unit subsidy on sugarcane cutter cum planter machine. 3) Multicrop seeder machine subsidy of up to Rs70k/unit (50% for reserved category) and Rs56k/unit (40% for general category). 4) Tractor driven reaper cum binder – subsidy of up to Rs150k (max 50% to reserved category) and up to ~Rs120k (max 40% for general category). 5) subsidy of up to 75-80% on agriculture mechanization equipment such as rotary mulcher, super seeder, happy cedar, straw baler without rack, zero tillage, rotary slasher and paddy straw.
  - **Jharkhand** – Farm loan waiver scheme worth Rs18.2b expected to benefit 34.7k farmers.
  - **MP** – under flagship agricultural equipment grant scheme, subsidy of 40-50% for purchase of reaper cum binder.



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## RECOMMENDATION PARAMETERS FOR FUNDAMENTAL REPORTS

Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

**BUY:** Upside greater than 20% over 12 months

**ADD:** Upside between 10% to 20% over 12 months

**NEUTRAL:** Upside between 0% to 10% over 12 months

**REDUCE:** Downside between 0% to -10% over 12 months

**SELL:** Downside greater than -10% over 12 months

**NOT RATED / UNDER REVIEW**

## ABOUT YES SECURITIES (INDIA) LIMITED

YES Securities (India) Limited ("YSL") is a wholly owned subsidiary of YES BANK LIMITED. YSL is a Securities and Exchange Board of India (SEBI) registered Stock broker holding membership of National Stock Exchange (NSE), Bombay Stock Exchange (BSE), Multi Commodity Exchange (MCX) & National Commodity & Derivatives Exchange (NCDEX). YSL is also a SEBI-registered Category I Merchant Banker, Investment Adviser and Research Analyst. YSL is also a Sponsor and Investment Manager of Alternate Investment Fund - Category III (YSL Alternates) and AMFI registered Mutual Fund Distributor. The Company is also a registered Depository Participant with CDSL and NSDL. YSL offers, inter alia, trading/investment in equity and other financial products along with various value added services. We hereby declare that there are no disciplinary actions taken against YSL by SEBI/Stock Exchanges.