

June 27, 2024

SECTOR UPDATE | Sector: Automobile

Automobile Channel Check

Retail trend: Flat 2W, decline in other segments

Key Pointers for Jun'24:

- **2Ws** –Retails sustained; ~Rs1k/unit price hike for TVS/HMSI likely from Jul'24.
- **PVs** – Multitude of factors dent retails YoY causing inventory flare-up.
- **CVs** –Flat Retails YoY on low base likely, led by pre-buys ahead of OBD2.
- **Tractors** – Weak demand prevails given dampened sentiments.

Our interaction with channel partners hints at weak demand trends for Jun'24 YoY: Flat retails for 2Ws and CV, low-mid single digit decline for tractors and 10-12% drop for PV. Having said that, overall sentiments within 2Ws stay positive as semi-urban/rural growth continue to beat urban growth for the fifth consecutive month as per our checks. For PVs, demand impact is visible led by multiple factors like high base, weak customer walk-ins, and purchase decisions deferred till the festive season. Consequently, inventory flared up to >5 weeks in North and ~4 weeks in South with near to peak average discounts in few segments. CV retails would be flat YoY despite low base given prebuys due to OBD 2, with better dispatches owing to stocking ahead of Jul'24 price hike. We expect CV inventory at ~4 weeks by June end. Net pricing suffered slight deterioration as reflected in the ~0.5-1% increase in average discounts MoM. Tractor retails stayed weak, and we expect a decline of ~4-5% YoY.

Key wholesale expectations – MSIL at ~164k (+3.8% YoY/ -7.8% MoM), AL at ~16.7k (+9.4% YoY/ +13.4% MoM), Royal Enfield at 483k (+10.5% YoY/ -3.0% MoM).

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

Exhibit 1: Volume estimate for June-24

Company	YoY			MoM		YTD		
	June-24	June-23	YoY (%) chg	May-24	MoM (%) chg	FY25 YTD	FY24 YTD	(%) chg
Maruti Suzuki	164,000	159,418	2.9	196,711	(16.6)	506,640	498,030	1.7
M&M	115,450	106,907	8.0	108,791	6.1	331,751	301,147	10.2
Automotive	69,650	62,429	11.6	71,682	(2.8)	211,803	186,138	13.8
Tractors	45,800	44,478	3.0	37,109	23.4	119,948	115,009	4.3
Tata Motors	80,380	81,673	(1.6)	76,766	4.7	234,667	226,245	3.7
CV's	34,350	34,314	0.1	29,691	15.7	93,579	85,795	9.1
PV's	46,030	47,359	(2.8)	47,075	(2.2)	141,088	140,450	0.5
Hero MotoCorp	483,000	436,993	10.5	498,123	(3.0)	1,514,708	1,352,574	12.0
Bajaj Auto	359,100	340,981	5.3	355,323	1.1	1,102,679	1,027,407	7.3
Ashok Leyland	16,650	15,221	9.4	14,682	13.4	45,603	41,329	10.3
TVS Motor	353,700	316,411	11.8	369,914	(4.4)	1,107,229	953,244	16.2
Eicher Motors								
Royal Enfield	72,900	77,109	(5.5)	71,010	2.7	225,780	227,706	(0.8)
VECV	7,365	6,715	9.7	6,901	6.7	19,643	19,571	0.4
Escorts	9,450	9,850	(4.1)	8,612	9.7	25,577	26,582	(3.8)

Source: SIAM, YES Sec

YES Sec coverage Summary

Stock	Rating	TP
Ashok Leyland	ADD	232
Bajaj Auto	ADD	9,966
Bharat Forge	ADD	1,531
CEAT	NEUTRAL	2,715
Eicher Motors	BUY	5,383
Endurance	ADD	2,365
Escorts	NEUTRAL	3,232
Exide Industries	ADD	519
Hero MotoCorp	ADD	5,333
M&M	ADD	3,404
Maruti Suzuki	ADD	13,868
Samvardhan Motherson	BUY	186
Tata Motors	ADD	1,196
TVS Motors	ADD	2,237
Sona BLW	NEUTRAL	655

Source – YES Sec

Note – Target prices are based on last update released.

DEEP SHAH

Lead Analyst

deep.shah@ysil.in





As the market expands and some kind of equilibrium is reached, other players will also have similar strategic imperatives of not dressing it up. Most of the people (2W EV start-ups] have come to us to sell their company and I'm sure they have gone to other legacy players as well. The nature of the field right now is such that it's not at equilibrium. We'll thrust forward as the equilibrium comes.

**Rakesh Sharma,
ED, Bajaj Auto**

2W: Retails sustained; price hike of ~Rs1k/unit likely by TVS/HMSI from Jul'24

- **We expect 2W retails to stay flat YoY in Jun'24, as offtake has sustained in key markets of west, central and north.** Expected MoM decline of high 8-10% is explained by seasonal factors such as monsoon. Overall sentiments, as highlighted before, stay favorable both in urban/rural, as growth rates are similar (however rural demand is outpacing urban in key regions like west, central and south) following the trend of past 4-5 months. We expect domestic 2W wholesales to clock 5-10% growth YoY across major OEMs (ex RE).
- **Inventory levels mostly stable MoM at 3.5-4 weeks** - 2W inventory had 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 to be stable MoM at ~3.5-4 weeks in Jun'24. OEM wise across HMCL/TVSL/BJAUT stand at ~3.5-4 weeks (v/s flat MoM) and ~2-3 weeks at RE (flat MoM).
- **Sustained momentum for Xtreme 125R; notable supply ramp-up backed by healthy market response** - Xtreme 125R product reception is positive across regions in urban and semi-urban markets. However, supply ramp-up is currently underway with indicative waiting period of ~7-10 days. Customer profile is largely young population (age 20-25 years), primarily an upgrade customer on the premise of better mileage and warranty terms and low maintenance. Our interactions indicate further 8-10% MoM increase in supply in Jun'24.
- **Sub segments trends stable within 2Ws** with entry segment demand recovery lagging in premium segments (>125cc). Consequently, share of economy (entry) declined to 15.6% in FY24 (vs ~18% in FY23 and ~29.3% in FY20). The share of executive segment however rose to 60.3% in FY24 (vs 59.3% in FY23 and 48.5% in FY20) and that of premium segment to 24.1% (vs 22.5% in FY23 and 22.1% in FY20).
- **Price actions by OEMs** - TVSL and HMSI have announced price increase of average Rs1k/unit effective Jul'24 across product portfolio.
- **EV industry retails to drop by 10-12% MoM to ~67-70k** - EV 2W volumes were at record high of ~136.6k units in Mar'24, led by prebuy ahead of discontinuation of FAME 2 subsidy from Apr'24. The average subsidy reduction of ~55% to Rs10k/unit (vs Rs21-22k/unit till Mar'24) has resulted in net price increase of 12-13% by OEMs across key models in Apr'24 (ex-OLA where prices have declined for S1X and remained constant for other models). We expect gradual pick-up in volumes over 1HFY25E led by new product launches (especially in affordable/low-cost segment). We expect 10-12% decline in EV 2W volumes in Jul'24.



Dealers cited the impact of elections, extreme heat and market liquidity issues as major factors. Despite better supply, some pending bookings and discount schemes, the lack of new models, intense competition and poor marketing efforts by original equipment manufacturers (OEMs) affected sales.

**Manish Raj Singhania,
President, FADA**

PV: Multitude of factors dent retail YoY resulting in inventory spike-up

- **Our channel check suggests PV retails will drop 10-12% digit YoY in Jun'24** led by high base, moderating offtake in SUVs while entry level portfolio still see no sings of recovery. The new launch impact too seems to be fading on customer walk-ins due to seasonal factors as well as customer are elongating purchase decisions till the festive.
- **Demand moderation across states leading to inventory flare up** - Key markets like Maharashtra have indicated a decline of 8-10% while South moderated to flattish to mid-single digit decline. The pace of retails in other key regions such as Rajasthan, MP and Gujarat, too have declined where retails are expected to decline 12-14%. **Consequently, inventory levels have risen materially to ~5-6 weeks (vs ~4 weeks in May'24) in northern markets while the same increased to ~4 weeks (vs ~3 weeks in South).**
- **M&M - New launch driving momentum while existing portfolio mirrors industry trends** - Our extensive checks for the initial bookings indicate share of first time buyers remain as high as 60-70% (vs industry share of 42-45%) followed by upgrades at 20-25%. However, these are based on initial bookings, inquiry pipeline continues to point towards elevated share of first time buyers. Initial supply ramp-up too is good in key markets of Maharashtra with overall supply/booking ratio at 60% with indicative wait period of ~2 months for higher trims.
- **Discounts peak in Jun'24 across OEMs and segments**
 - **MSIL - ARENA** - on MoM basis, discount have increased across variants especially in entry level CNG and AGS portfolio by 12-14% MoM resulting in peak discounts

for Jun'24 (even higher by 18-20% vs last peak discounts of Dec'23). Under NEXA average discounts increased MoM by 18-20%, more importantly SUV portfolio.

- **TTMT**- Benefits of up to Rs40-45k (vs Rs30-35k in May'24) for Tiago/Tigor, Altroz discounts at Rs35k (v/s Rs25k in May'24), Safari and Harrier is at Rs120k (vs flat MoM). Nexon (new gen) discount at Rs15k (vs flat in May'24 and nil in Apr'24). Discounts on EV cars including Punch EV are higher by 10-15% MoM.
- **MM** - Benefits of up to Rs35-40k (vs Rs30-45k in May'24) for Bolero, Bolero Neo at Rs55-65k (v/s Rs50-60k MoM), XUV 400 average discount at Rs140k for MY24 (v/s flat MoM).

CV: Retails to be flat YoY on low base led by pre-buy ahead of OBD2

“ Due to the general elections, we do see that Q1 should be a bit soft. But this is a common phenomenon. Whenever there is a general election, we see an impact for around three-six months.

Girish Wagh,
Executive Director,
Tata Motors

- **We expect Jun'24 MHCV retails to be flat YoY, led by seasonal factors and low base due to OBD 2 transition last year.** The fleet sentiments are positive (unchanged) especially after general elections given stability in the government. However, MHCV/LCV dispatches are expected to grow at ~9%/2% ahead of retails, led by inventory stocking ahead of price hike expected from Jul'24.
- Within MHCV, end user segment such as Infra, FMCG, spare parts (supply chain), haulage, ICVs and auto carriers witnessed a better off-take vs HCVs (especially tractor trailers). **On the other hand, the Bus segment retails are expected to maintain the momentum with growth of 13-15% YoY, despite healthy seasonal demand materialized over past 3 months.**
- **The average dealer inventory is expected to be stabilized at ~4 weeks in Jun'23** (vs 3-4 week in May'24, 3-3.5 weeks in Apr'24, 1-1.5 month in Sep'23 and ~1 month in Aug'23).
- **Net pricing moderated MoM, led by increase in average discounts** - As highlighted, favorable net pricing is one of the factors helped deliver better profitability of CV OEMs with EBITDA margins of TTMT CV/AL increased further to ~11-14% in 4QFY24 (vs 10-11% in 9MFY24). However, per our checks we note ~0.5-1% increase in discounts MoM in Jun'24. However, OEMs have indicated price hike in similar range effective Jul'24, which should partially offset the increase in average discounts MoM.
- **Fleet utilization stable MoM at 70-75%** - 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 decline slightly from ~75% in May'24 to 70-75% for the organized market, partly due to elections effect.

“ The timely arrival of the southwest monsoon and the forecast of an above-normal monsoon have improved farmers' sentiment. Positive terms of trade, good cash flows from the rabi harvest, and the start of land preparation for kharif crops bode well for increased tractor demand in the coming months.

Hemant Sikka,
President - Farm Sector,
M&M

Tractors: Weak demand persists given dampened sentiments

- We expect tractor industry retails volumes to decline by low single digit YoY, as sentiments remained weak. We have not heard any major announcement related to tractor and farm implements subsidy in Jun'24. **Despite high base, optimum channel inventory and weak sentiments, we expect ~1.5% growth in dispatches for M&M and Escorts.**
- **Key tractor and farm mechanization subsidy announced in Jun'24**
 - **Bihar** - Diesel subsidy of Rs1.5k/acre for Rabi and Rs2.25k/acre of Kharif crop.
 - **Rajasthan** - subsidy of up-to 50% for seed drill, multi crop thrasher etc.
- **Key tractor and farm mechanization subsidy announced in May'24**
 - **Maharashtra** - Subsidy of up to Rs300k on mini tractor (up to 20HP) announced.
 - **Bihar** - Up to 50% subsidy on seed cum fertilizer drill machine.
 - **Rajasthan** - subsidy of up-to 50% on 20-35bhp tractor operated ripper machine.
- **Key tractor and farm mechanization subsidy announced in April'24**
 - **Bihar** - The government under its agriculture mechanization scheme to pay subsidy of ~60% (or max Rs30k) on purchase of Reaper machine, 50-60% (max Rs24k) on

purchase of tractor disc plow, up to 60% subsidy (max Rs25k) on purchase of Rotavators and up to 60% subsidy on happy seeder and Thresher machines.

- **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.
 - **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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Off Western Express Highway, Santacruz East,
Mumbai - 400 055, Maharashtra, India.

Correspondence Address: 7th Floor, Urmi Estate Tower A, Ganpatrao
Kadam Marg, Opp. Peninsula Business Park, Lower Parel (West),
Mumbai - 400 013, Maharashtra, India.

✉ research@ysil.in | Website: www.yesinvest.in

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