

“We firmly believe that low cost, small cars are necessary in our economic and social conditions. A temporary setback in demand not going to change our strategy.”

**Mr. R C Bhargava,**  
 Chairman, MSIL

## Demand remains weak in most segments, except 2Ws

### Inventory remains high for PVs but is at comfortable levels for 2Ws

- Demand trends in Aug'24 remained weak in most segments, except 2Ws. PV demand continued to moderate, as we noted a 6-8% YoY drop in retails for the month as customers deferred purchases, expecting better discounts in Sep'24. As a result, inventory remained high for PV OEMs. In 2Ws, retails are expected to grow by 1-3% YoY, aided by a positive customer response to new models like Bajaj Freedom 125, TVS Jupiter 110cc, and RE Guerilla. However, unlike PVs, inventory in 2Ws is still at comfortable level for OEMs. CV retails are expected to decline 10-12% YoY due to the monsoon, though fleet utilization has improved to 65-70%. Tractor retails are also expected to drop 13-15% YoY as the full impact of the monsoon is yet to be observed in most regions. In Aug'24, dispatches are expected to grow YoY for 2Ws (3.5%), tractors (7%) and 3Ws (7%), while they are expected to decline for CVs (-5%) and PVs (-2.5%).
- 2Ws:** Retail sales are anticipated to grow 1-3% YoY in Aug'24. Walk-ins and enquiries are improving ahead of regional festivals (Ganesh Chaturthi and Onam) beginning in Sep'24. BJAUT's Freedom 125 has been launched in Kerala, Karnataka and Delhi. Channel partners have consistently reported a healthy flow of bookings; however, vehicle availability remains a challenge, with dealers quoting a waiting period of 15 days to 1 month, depending on the region. The top-end variant with disc brakes and an LED headlamp is particularly in high demand. For Royal Enfield, the newly launched Guerilla has received an encouraging response. However, logistical issues have restricted dispatches to dealers, resulting in a waiting period of 30-40 days. For HMCL, Xtreme 125R supplies have improved MoM and dealers are receiving 70-80% allocations against their requirement. However, Xtreme remains the key growth driver for HMCL as 100cc demand continues to languish. For TVS Motors, the refreshed version of Jupiter 110cc has reached dealerships and initial feedback from customers is positive. It is powered by an all-new engine and gets a host of new features, including colored LCD instrument cluster, DRLs at front and back, higher boot space like its 125cc sibling, etc. without any material price difference vs. the outgoing model. As a result, dealers expect a further market share gain for TVSL in the 110cc segment. Inventory in 2Ws is still not an area of concern as it currently stands at 60 days for HMCL, 40 days for TVSL and HMSI, and 45-50 days for BJAUT, while RE's inventory stands at ~2-3 weeks. We expect dispatches for HMCL/RE to decline ~2%/5% YoY, while they are expected to grow ~8%/10% for TVSL/BJAUT.
- PVs:** Retail sales in Aug'24 are expected to decline by ~6-8% YoY as demand continued to moderate in PVs during the month. Walk-ins have been steady but customers are deferring purchases to the next month in anticipation of better discounts. However, dealers expect discounts to remain flat or see a slight decline next month from Aug'24 levels, with the onset of the festive season. For Tata Motors, the launch of Curvv did manage to create some excitement but given that it is an EV at a slightly higher price point and a Coupe, conversions were limited. Curvv EV currently has a waiting period of 30 days. Dealers are

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now eagerly waiting for the launch of the ICE variants of the model, which they believe is likely to bring back some lost momentum for TTMT. MM's XUV3XO mid-level variants (MX3 and AX5) command a waiting period of 30-35 days, base variants have a waiting period of six months and top variants have 3-4 months. While Thar Roxx has been launched, dealers await delivery of the product, which is expected by Oct'24. For MSIL, discounts have declined 10% MoM for the ARENA channel but increased by 5-7% MoM for the NEXA channel. TTMT increased discounts to INR20k (from INR10k last month) on its best-selling compact SUV, Punch, while Nexon continues to command a discount of INR100k on some of its variants. Inventory stands at around 55-60 days for MSIL, 50 days for TTMT and 40-45 days for MM. We expect dispatches to decline 5.5% YoY for MSIL (including LCVs) and increase 4%/1% for MM and TTMT.

- **CVs:** Both MHCV and LCV retails are estimated to decline by 10-12% YoY due to the seasonal effects of the monsoon in the first half of Aug'24 and persistent weakness even after the general elections. The cargo segment remains weak, while the tipper segment presents mixed performance. The active monsoon has slowed down mining and construction activities across most regions, resulting in reduced movement of tippers. However, a positive development this month is the rise in fleet utilization levels, now at 65-70%, compared to 55-65% in recent months. This was driven by better off-take in consumer-based sectors such as agri, auto and FMCG. Discounts remain stable, with larger fleet operators able to secure better deals compared to smaller operators. Inventory stands at 30 days for Ashok Leyland (AL) and 35-40 days for Tata Motors (TTMT). Dispatches for AL/TTMT are expected to decline 7%/13% YoY.
- **Tractors:** Retails are expected to decline by 13-15% YoY, as the full impact of the monsoon is yet to be observed in most regions. Demand in the southern states like Telangana remains weak, with our channel checks indicating a decline of around 18-20%. Meanwhile, although demand recovery was expected in the northern regions, we expect this to pick up during the upcoming festive season. The monsoon has been favorable in states like Madhya Pradesh and Gujarat, and its positive effects are likely to be seen after the harvest. However, this month, we observed a volume decline of 10-12% YoY in states like Madhya Pradesh and Gujarat. For the non-agricultural segment, volumes are expected to decline by 18-20% YoY. Current inventory levels are around 8 weeks, which we consider normal as we approach the festive season. We expect dispatches for MM/Escorts to grow ~8%/4% YoY.
- **Valuation and view:** It is now an established fact that the majority of easy gains in auto OEM stocks are now behind us, as we have witnessed significant volume growth across segments over the last two years, and input costs also appear to have bottomed out. Hence, one will have to make selective micro strategies to outperform from hereon. In this backdrop, MSIL is our top pick among auto OEMs as it is well placed for the structural transition toward new technologies and market share gains in SUVs. We also like MM given a pure play in the growing SUV segment, a healthy order book and a play for a positive tractor cycle. Among auto ancillaries, our top picks are MOTHERSO and CRAFTSMA.

## Snapshot of estimates volumes for Aug-24

Company Sales	YoY			MoM							Residual	Residual	FY25 YTD
	Aug-24	Aug-23	YoY (%) chg	Jul-24	MoM (%) chg	FY25YTD	FY24YTD	(%) chg	FY25E	Gr. (%)	Growth (%)	Monthly Run rate	Monthly Run rate
<b>Maruti Suzuki</b>	<b>1,78,779</b>	<b>1,89,222</b>	<b>-5.5</b>	<b>1,75,041</b>	<b>2.1</b>	<b>8,75,688</b>	<b>8,68,882</b>	<b>0.8</b>	<b>21,99,154</b>	<b>3.0</b>	<b>4.5</b>	<b>1,89,067</b>	<b>1,75,138</b>
Domestic	1,54,657	1,64,608	-6.0	1,51,056	2.4	7,57,021	7,58,851	-0.2	18,90,912	20.7	40.4	1,61,984	1,51,404
Export	24,122	24,614	-2.0	23,985	0.6	1,18,667	1,10,031	7.8	3,08,242	8.9	9.6	27,082	23,733
<b>Mahindra &amp; Mahindra</b>	<b>97,096</b>	<b>92,026</b>	<b>5.5</b>	<b>93,653</b>	<b>3.7</b>	<b>5,23,766</b>	<b>4,85,252</b>	<b>7.9</b>	<b>13,75,458</b>	<b>14.5</b>	<b>18.9</b>	<b>1,21,670</b>	<b>1,04,753</b>
UV (incl. pick-ups)	64,851	62,357	4.0	59,715	8.6	3,09,260	2,84,248	8.8	8,57,112	18.0	23.9	78,265	61,852
LCV & M&HCV	2,847	949	200.0	3,136	-9.2	15,184	7,839	93.7	28,805	50.1	20.0	1,946	3,037
Verito													
Three-Wheelers	5,987	7,044	-15.0	3,593	66.6	27,235	31,305	-13.0	88,451	14.0	32.3	8,745	5,447
Tractors	23,410	21,676	8.0	27,209	-14.0	1,72,086	1,61,860	6.3	4,01,089	6.0	5.8	32,715	34,417
<b>Tata Motors</b>	<b>74,424</b>	<b>78,010</b>	<b>-4.6</b>	<b>71,996</b>	<b>3.4</b>	<b>3,76,311</b>	<b>3,84,888</b>	<b>-2.2</b>	<b>9,84,919</b>	<b>1.6</b>	<b>4.1</b>	<b>86,944</b>	<b>75,262</b>
HCV's	12,158	13,816	-12.0	11,886	2.3	66,018	64,223	2.8	1,88,426	4.0	4.7	17,487	13,204
LCV's	15,704	18,261	-14.0	15,156	3.6	80,095	86,593	-7.5	2,26,017	5.3	13.9	20,846	16,019
CV's	<b>27,863</b>	<b>32,077</b>	<b>-13.1</b>	<b>27,042</b>	<b>3.0</b>	<b>1,46,114</b>	<b>1,50,816</b>	<b>-3.1</b>	<b>4,14,443</b>	<b>4.7</b>	<b>9.5</b>	<b>38,333</b>	<b>29,223</b>
PVs	<b>46,561</b>	<b>45,933</b>	<b>1.4</b>	<b>44,954</b>	<b>3.6</b>	<b>2,30,197</b>	<b>2,34,072</b>	<b>-1.7</b>	<b>5,70,476</b>	<b>6.0</b>	<b>11.9</b>	<b>48,611</b>	<b>46,039</b>
<b>Hero MotoCorp</b>	<b>4,78,943</b>	<b>4,88,717</b>	<b>-2.0</b>	<b>3,70,274</b>	<b>29.3</b>	<b>23,84,373</b>	<b>22,32,601</b>	<b>6.8</b>	<b>60,58,320</b>	<b>7.8</b>	<b>8.4</b>	<b>5,24,850</b>	<b>4,76,875</b>
<b>Bajaj Auto</b>	<b>3,69,968</b>	<b>3,41,648</b>	<b>8.3</b>	<b>3,54,169</b>	<b>4.5</b>	<b>18,26,193</b>	<b>16,88,802</b>	<b>8.1</b>	<b>46,08,035</b>	<b>9.1</b>	<b>9.8</b>	<b>3,97,406</b>	<b>3,65,239</b>
Motorcycles	3,07,690	2,85,031	7.9	2,97,541	3.4	15,56,148	14,43,201	7.8	39,22,724	9.0	9.8	3,38,082	3,11,230
Two-Wheelers	3,07,690	2,85,031	7.9	2,97,541	3.4	15,56,148	14,43,201	7.8	39,22,724	9.0	9.8	3,38,082	3,11,230
Three-Wheelers	62,279	56,617	10.0	56,628	10.0	2,70,046	2,45,601	10.0	6,85,311	10.0	10.0	59,324	54,009
Domestic	2,27,218	2,05,100	10.8	2,10,997	7.7	11,28,836	10,25,919	10.0	28,22,977	9.2	8.6	2,42,020	2,25,767
Exports	1,42,750	1,36,548	4.5	1,43,172	-0.3	6,97,357	6,62,883	5.2	17,85,058	9.1	11.8	1,55,386	1,39,471
<b>Ashok Leyland</b>	<b>14,483</b>	<b>15,576</b>	<b>-7.0</b>	<b>13,928</b>	<b>4.0</b>	<b>72,304</b>	<b>71,973</b>	<b>0.5</b>	<b>2,08,799</b>	<b>7.3</b>	<b>11.2</b>	<b>19,499</b>	<b>14,461</b>
M&HCV	8,787	9,763	-10.0	8,440	4.1	45,112	45,499	-0.9	1,34,526	7.7	12.6	12,774	9,022
LCV	5,697	5,813	-2.0	5,488	3.8	27,193	26,474	3	74,273	6.4	8.7	6,726	5,439
<b>TVS Motor</b>	<b>3,78,787</b>	<b>3,45,848</b>	<b>9.5</b>	<b>3,54,140</b>	<b>7.0</b>	<b>18,20,102</b>	<b>16,25,069</b>	<b>12.0</b>	<b>46,35,552</b>	<b>10.6</b>	<b>9.7</b>	<b>4,02,207</b>	<b>3,64,020</b>
Motorcycles	1,68,352	1,53,047	10.0	1,61,074	4.5	8,43,864	7,69,810	9.6	21,64,428	8.6	8.0	1,88,652	1,68,773
Scooters	1,56,756	1,42,505	10.0	1,39,995	12.0	7,15,168	6,14,462	16.4	17,85,238	13.9	12.3	1,52,867	1,43,034
Mopeds	39,117	36,558	7.0	38,607	1.3	2,01,219	1,78,627	12.6	5,19,758	7.3	4.1	45,506	40,244
Three-Wheelers	14,562	13,738	6.0	14,464	0.7	59,851	62,170	-3.7	1,66,129	13.7	26.5	15,182	11,970
Domestic	2,82,520	2,58,333	9.4	2,56,551	10.1	13,72,698	12,20,927	12.4	34,99,853	10.1	8.7	3,03,879	2,74,540
Exports	96,267	87,515	10.0	97,589	-1.4	4,47,404	4,04,142	10.7	11,35,699	12.1	13.0	98,328	89,481
<b>Eicher Motors</b>													
<b>Royal Enfield</b>	<b>73,704</b>	<b>77,583</b>	<b>-5.0</b>	<b>67,265</b>	<b>9.6</b>	<b>3,66,990</b>	<b>3,78,406</b>	<b>-3.0</b>	<b>9,13,511</b>	<b>0.1</b>	<b>2.3</b>	<b>78,075</b>	<b>73,398</b>
<b>VECV</b>	<b>6,868</b>	<b>6,476</b>	<b>6.1</b>	<b>6,622</b>	<b>3.7</b>	<b>33,192</b>	<b>31,924</b>	<b>4.0</b>	<b>92,288</b>	<b>7.9</b>	<b>10.2</b>	<b>8,442</b>	<b>6,638</b>
<b>Escorts Kubota</b>	<b>5,816</b>	<b>5,593</b>	<b>4.0</b>	<b>5,769</b>	<b>0.8</b>	<b>37,305</b>	<b>37,745</b>	<b>-1.2</b>	<b>99,692</b>	<b>4.0</b>	<b>7.4</b>	<b>8,912</b>	<b>7,461</b>

Source: Company, MOFSL

## Comparative valuations

Auto OEM's	Rating	CMP (INR)	P/E (x)		EV/EBITDA (x)		PB (x)		FY25E Yield (%)		EPS CAGR (%)
			FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	Div	FCF	FY24-26E
Bajaj Auto	Neutral	10,809	34.2	28.4	26.9	22.2	10.8	10.1	1.9	2.1	17.5
Hero MotoCorp	Buy	5,371	23.2	19.4	15.6	13.3	5.6	5.2	3.2	3.7	16.4
TVS Motor	Neutral	2,754	49.8	42.1	30.4	26.2	13.1	10.4	0.3	1.3	22.1
Eicher Motors	Sell	4,910	31.5	28.4	28.4	25.5	6.5	5.7	1.1	4.5	8.7
Maruti Suzuki	Buy	12,452	25.2	22.4	16.3	13.8	4.1	3.6	1.2	1.9	14.5
M&M	Buy	2,758	25.5	21.4	19.7	16.0	2.6	2.2	0.9	3.3	20.0
Tata Motors	Neutral	1,120	19.3	16.7	6.7	5.7	3.9	3.2	0.4	4.5	7.0
Ashok Leyland	Buy	254	21.5	17.4	13.8	11.2	7.1	5.8	2.4	3.8	26.3
Escorts	Neutral	3,816	39.3	30.8	26.7	23.9	4.6	4.1	0.5	3.1	14.3
<b>Auto Ancillaries</b>											
Bharat Forge	Neutral	1,577	45.3	33.7	24.4	19.5	9.0	7.6	0.7	0.6	54.0
Exide Industries	Neutral	490	34.7	27.2	20.1	16.4	3.0	2.7	0.7	1.4	20.7
Amara Raja	Neutral	1,520	28.7	24.4	16.0	13.8	3.7	3.3	0.6	3.6	12.2
BOSCH	Neutral	31,769	43.1	36.4	39.0	32.7	7.1	6.5	1.1	1.1	18.5
Endurance Tech	Buy	2,495	40.2	30.7	22.3	18.5	6.2	5.3	0.4	1.5	31.1
SAMIL	Buy	195	30.1	22.8	12.2	10.0	4.5	4.0	1.0	1.2	51.7
CIE Automotive	Buy	586	24.2	20.1	14.3	12.1	3.3	3.0	0.8	2.2	17.7
CEAT	Buy	2,790	18.2	14.5	8.4	7.3	2.5	2.2	1.1	2.8	6.6
Balkrishna Ind	Neutral	2,848	33.9	26.1	20.7	16.4	5.5	4.7	0.8	2.7	19.4
MRF	Sell	1,34,431	29.3	26.3	13.3	12.0	3.1	2.8	0.4	2.2	1.2
Apollo Tyres	Buy	493	18.6	14.9	8.4	7.2	1.7	1.5	1.3	6.6	7.3
Sona BLW	Neutral	689	64.9	51.8	37.0	30.1	12.6	10.8	0.5	0.9	22.0
Tube Investments	Buy	4,007	63.2	50.6	31.1	25.0	12.4	10.1	0.1	1.5	51.7
MSUMI	Buy	70	39.5	31.5	26.4	21.1	14.7	11.8	1.5	1.6	24.2
CRAFTSMAN	Buy	6,031	42.4	27.6	14.2	11.0	3.9	3.4	0.3	0.3	23.1
Happy Forgings	Buy	1,188	34.6	26.7	22.7	18.3	6.0	5.1	0.5	1.3	32.0

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