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February 26, 2024

SECTOR UPDATE | Sector: Automobile

Automobile Channel Check

Demand trend: 2W +ve, PV/CV flat, tractor -ve

Key Pointers for Feb'24:

- **2Ws -** Weak HMSI supply aids peers; optimum inventory levels.
- **PVs –** CNG gains prominence in South market (diesel/petrol dominated).
- **CVs –** Fleet sentiments neutral, expected pause in new tender-based business.
- **Tractors** – No major subsidy announcements for second month in a row.

Our interaction with leading channel partners hints at a mixed retail demand scenario for Feb'24: 8-10% YoY growth for 2Ws, flat for PVs, mid-single digit decline led by prebuy ahead of OBD2 last year for CVs, and high single digit decline YoY for tractors. Within 2Ws, semi-urban/rural growth continue to exceed urban growth in states like Maharashtra (led by high base) and at par in other markets. Marriage season-related retails off-take would grow by 8-10% YoY. How customers respond to recent price cuts will be clear in due course but a knee jerk reaction with initial impact is visible. In PVs, CNG salience is improving in Southern states with CNG infra-availability going up. Having said that, southern CNG contribution is currently 4-5% overall (vs 8-10% in fleet segment). CV inventory is likely to stabilize at ~20-25 days, partly led by inventory restocking with full liquidation of 2023 make. Discounts have moderated MoM in Feb'24 with price effective hikes of 1-1.5% ensuring healthy net pricing to OEMs.

Key wholesale expectations – MSIL at ~171k (-1% YoY/ -14% MoM), AL at ~17.5k (-5.8% YoY/ +9.8% MoM), Royal Enfield at 71k (-0.8% YoY/ +6.8% 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 Feb-24

Company Sales	YoY			MoM		YTD		
	Feb-24	Feb-23	YoY (%) chg	Jan-24	MoM (%) chg	FY24 YTD	FY23 YTD	(%) chg
Maruti Suzuki	171,000	172,321	(0.8)	199,364	(14.2)	1,921,656	1,796,093	7.0
M&M	91,700	84,592	8.4	97,892	(6.3)	1,103,488	1,004,896	9.8
Automotive	69,800	58,801	18.7	73,944	(5.6)	750,898	632,365	18.7
Tractors	21,900	25,791	(15.1)	23,948	(8.6)	352,590	372,531	(5.4)
Tata Motors	83,900	79,705	5.3	86,125	(2.6)	874,275	863,578	1.2
CV's	33,900	36,565	(7.3)	32,092	5.6	352,398	366,716	(3.9)
PV's	50,000	43,140	15.9	54,033	(7.5)	521,877	496,862	5.0
Hero MotoCorp	418,000	394,460	6.0	433,598	(3.6)	5,119,580	4,809,204	6.5
Bajaj Auto	342,000	280,226	22.0	356,010	(3.9)	3,980,367	3,636,095	9.5
Ashok Leyland	17,500	18,571	(5.8)	15,939	9.8	171,855	168,279	2.1
TVS Motor	322,500	276,150	16.8	339,513	(5.0)	3,790,478	3,364,916	12.6
Eicher Motors								
Royal Enfield	71,000	71,544	(0.8)	76,187	(6.8)	832,246	762,660	9.1
VECV	7,650	7,289	5.0	7,066	8.3	74,517	67,717	10.0
Escorts	6,450	7,811	(17.4)	6,185	4.3	87,240	92,985	(6.2)

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.

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Automobile Channel Check

> "As far as the demand is concerned, as we have been saying, we do expect the industry to grow double digit on revenue in the coming year at the least. So, it's not just about the top end of India which is growing, you can see aspirations of people growing. We clearly see the positive signals which are emanating from the rural sector as well and we will see in the coming quarters growth picking up from that segment"
>
> **Niranjan Gupta,**
> CEO, Hero MotoCorp

2W: Weak supply from HMSI benefitting peers; inventory optimum

- **We expect 2W retails to grow by 7-9% in Feb'24 YoY, as retail offtake has sustained in key markets of west, central and north and now getting broad-based to other markets like east (albeit in a slow recovery). Volumes from south are reportedly weak (on a 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. We expect domestic 2W wholesales to clock healthy 12-14% growth YoY across major OEMs (ex RE where we expect degrowth of ~1%).**

- **Feedback from key 2W markets – 1) MH** – Growth rates from rural/ tier 1 catchments is outpacing urban for second month in a row by 6-8%. We note, mid-single digit to flat volumes 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 optimum mostly** - 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 Padva 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).

- **Marketing boost from TVSL (for Ronin) and RE (across brands) –** According to key channel partners, significant increase in marketing 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.

- **EVs - Customer response to recent price cuts is not yet fully evident but a knee jerk reaction is discernible** – 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 the key triggers. We do not foresee immediate impact on EV volumes given the boost in the form of increased distribution across players. Our interaction indicate OEMs are voluntarily gearing up for no FAME 2 subsidy post Mar'24. This would result in lower inventory across OEMs. HMSI's EV launch is now slated for Nov'24 (v/s Mar'24 targeted 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: CNG salience improving in South market (diesel/petrol dominated)

- **Lean months interms of retails -** Our check suggests PV retails to be flat YoY in Feb'24, led by lean month interms of retails and dispatches. We believe, with overall supply now normalized even for automatic trims, supply now leads demand leading to stock levels near normalized level of 3-4 weeks, even for 2024 make.

- **CNG salience improving for Southern PV markets** – 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 signoficant in TN, AP vis-à-vis Kerala.

- **Demand trends diverse for MSIL in NEXA and Arena channel –** Our interaction with leading channel partners in South India indicated 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 the same for Arena declined by -6/-20%.

- **Waiting period close to nil across OEMs** - 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. New Brezza - Nil (v/s ~ 1 week in Dec'23, ~2 weeks in Nov'23, 6-8 weeks in Sep'23), 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 – ~1 week in Feb'24 (v/s flat MoM, ~3 weeks in Dec'23, ~5 weeks in Nov'23, 12-14 weeks in Sep'23), Jimny is nil (v/s Nil in Dec'23, ~1 week in Nov'23, ~4 weeks Sep'23). Similarly, for M&M's XUV7OO wiating period has come down to ~1 week (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 declined MoM, led by seasnoalility effect**
    - **MSIL –** We note, on MoM basis, discount increased by Rs30-55k/unit for entry level segments even for 2024 stocks across trims (AT, AGS and CNG). Discounts in few models of ARENA (WagonR, Spresso, Celerio) is near to peak discounts of Dec'23. NEXA - sharp MoM increase in premium hatch segment by 20-70% (fresh stocks of 2024). Whereas the same declined by ~40-80% MoM in GV and Jimny.
    - **TTMT**- Benefits of up to Rs45k (v/s Rs20-30k in Jan'24, Rs50-60k MoM in Dec'23) for Tiago/Tigor, Altroz discounts at Rs10k (v/s flat MoM, Rs30k in Dec'23), Safari and Harrier is at Rs75 (v/s Rs150k MoM). No discount on Nexon (new gen).
    - **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 3OO. XUV 4OO 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 co's stable.

CV: Fleet sentiments neutral, expected pause for new tender based business

"The demand for buses is almost 2.5 times that of the MHCV growth. The strong demand from both the government and private sectors, which culminated in the pent-up demand as well as the slowdown earlier."

Shenu Agarwal,
MD and CEO,
Ashok Leyland

- We expect Jan'24 MHCV retails to drop YoY by 4-5% (v/s ~10% YoY growth in 9MFY24), partly due to high base (prebuy ahead of OBD 2 norms). 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 increase by >8% MoM (and grow 80-90% YoY), led by sustained off-take and onset of 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 Jully'23 and ~20 days in Jun'23). This will partially be supported by channel restocking due to almost nil inventory of 2023 models.
- **Net pricing stays healthy for OEMs** - As per our checks in Feb'24, discounts from AL, TTMT and VECV have remained flat MoM (v/s 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 indicates price hike of ~1.1.5% on 2024 models (v/s 2-3% indicated earlier). 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.

> "The rural economy is under stress. The sentiment is more negative than what we expected. We need to see that (government spending) starting to walk because that is a key driver of rural prosperity because rural household income comes from many other sources than just farming. So, the overall prosperity in the rural household gets enhanced when there is very good level of government spending."
>
> **Rajesh Jejurikar,**
> ED and CEO (Auto and Farm), M&M

Tractors: Seasonal factors drive healthy retails MoM

- We expect tractor industry retails volumes to decline 6-8% YoY. We have not heard any major announcement related to tractor and farm implements in Feb'24. Led by high base and festive timing mismatch, we expect 15-16% decline in dispatches for M&M and Escorts.
- **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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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.