

Automobile/Automobile Ancillary Sectors

10 October 2018

Lower Margins To Restrict PAT Growth On YoY basis; CV Segment To Outperform

We expect the companies in our coverage universe to report a decline in 2QFY19 earnings on YoY basis because of lower margins. We expect the earnings to fall 5% YoY and rise by 4% QoQ. However, on the sales front we expect a low double-digit YoY increase because of single-digit volume growth for most companies and product mix improvement following price hikes. Commercial vehicle (CV) segment and two-wheeler segment have done well in 2QFY19, while passenger vehicles and tractors witnessed subdued despatches. Also, this year the festive season is delayed which will result in an adverse base for companies on YoY basis. As regards margins, we expect our coverage universe to report ~200bps YoY and ~60bps QoQ fall in margins because of higher input cost pressure and discounts.

Volume growth subdued because of multiple factors: The volume of original equipment manufacturers (OEMs) of cars and two-wheelers was impacted in 2QFY19 because of higher insurance costs and heavy rainfall in a few states. Car sales were the most impacted because of heavy rains in some states and thus car sales growth took a hit in 2QFY19. In case of two-wheeler OEMs and tractor OEMs, the high base of last year because of early festive season impacted YoY growth. As regards CV segment, the growth momentum remained strong with a robust double-digit YoY growth in volume for most OEMs. VST Tillers' volume was the weakest as it reported double-digit YoY decline because of a sharp fall in tractor sales and also being impacted by lower subsidy release by a few states. We expect the net sales of our coverage universe to grow 11% YoY in 2QFY19 led by growth of two-wheeler and commercial vehicle OEMs and price hikes in 1QFY19 and 2QFY19. For Eicher Motors, product mix improvement because of new launches by Royal Enfield are likely to drive double-digit YoY sales growth for the company on single-digit YoY volume growth of 3.6%, impacted by floods, workers' strike at its plant and also truckers' strike.

Margins likely to fall YoY and QoQ: We expect the margins of most companies in our coverage universe to fall YoY because of the rise in raw material costs and higher discounts compared to the previous year. Only in case of CVs we expect an improvement in margins on QoQ as well as YoY basis. Following higher discounts, currency depreciation and lower volume, we expect the margins of most companies to fall YoY. We expect a ~200bps YoY/60bps QoQ fall in margins of our coverage universe companies. Maruti Suzuki India, Hero MotoCorp, Bajaj Auto and Balkrishna Industries are expected to report a 200bps-300bps fall in margins on YoY basis, while for companies like Ashok Leyland and Jamna Auto we expect a YoY increase in margins. We expect the companies in our coverage universe to report EBITDA decline of 3% YoY and flat growth on sequential basis, while at PAT level we expect them to post 5%YoY decline growth in earnings and 4% QoQ rise in earnings.

Exhibit 1: Quarterly volume

Volume (units)	2QFY18	1QFY19	2QFY19	YoY (%)	QoQ (%)
Hero MotoCorp	20,22,805	21,05,219	21,34,047	5.5	1.4
Bajaj Auto	10,71,510	12,26,641	13,39,377	25.0	9.2
TVS Motor	9,48,584	9,28,274	10,87,541	14.6	17.2
Maruti Suzuki	4,92,118	4,90,479	4,84,848	(1.5)	(1.1)
Royal Enfield	2,02,867	2,25,361	2,10,102	3.6	(6.8)
Ashok Leyland	40,967	42,127	51,958	26.8	23.3
M&M Tractor	80,911	1,00,784	78,045	(3.5)	(22.6)
Atul Auto	12,224	10,568	13,391	9.5	26.7
VST-Tillers	5,888	5,367	5,396	(8.4)	0.5
VST-Tractors	3,129	1,927	2,087	(33.3)	8.3

(Rsmn) Companies	Revenues			EBITDA			EBITDA margin (%)			PAT		
	2QFY19E	YoY (%)	QoQ (%)	2QFY19E	YoY (%)	QoQ (%)	2QFY18	1QFY19	2QFY19E	2QFY19E	YoY (%)	QoQ (%)
Maruti Suzuki	221,036	1.5	(1.6)	30,835	(16.2)	(8.0)	16.9	14.9	14.0	19,004	(23.5)	(3.8)
Hero MotoCorp	89,101	6.6	1.1	13,384	(8.1)	(2.8)	17.4	15.6	15.0	9,291	(8.1)	2.2
Bajaj Auto	79,533	20.9	7.2	13,580	4.6	6.0	19.7	17.3	17.1	11,849	6.6	6.2
TVS Motor	48,784	20.4	17.4	3,903	11.4	27.3	8.6	7.4	8.0	2,040	(4.3)	39.1
Swaraj Engines	2,401	15.1	2.4	375	6.9	2.4	16.8	15.6	15.6	238	1.1	3.0
Atul Auto	1,752	9.6	27.6	244	(9.5)	64.1	16.8	10.8	13.9	160	(6)	55.1
VST Tillers	1,505	(14.2)	3.4	184	(24.6)	(0.3)	13.9	12.6	12.2	156	(16.5)	8.6
Eicher Motors	24,323	12.4	(4.4)	7,662	11.0	(6.8)	31.9	32.3	31.5	5,496	13.0	(7.0)
Gabriel	5,295	12.3	2.9	504	9.7	2.9	9.7	9.5	9.5	277	4.2	3.6
Balkrishna Ind.	14,088	19.2	(0.3)	4,160	10.4	1.3	31.9	29.1	29.5	2,368	16.6	2.8
Ashok Leyland	76,845	27.1	23.0	8,453	38.2	30.5	10.1	10.4	11.0	5,198	55.5	40.4
Jamna Auto	5,699	48.0	1.4	787	56.5	4.6	13.1	13.4	13.8	421	42.9	5.2
Grand total	5,70,362	10.6	4.4	84,069	(2.7)	0.2	16.8	15.4	14.7	56,497	(5.2)	3.6

Source: Companies, Nirmal Bang Institutional Equities Research

Gaurant Dadwal

 Research Analyst
 gaurant.dadwal@nirmalbang.com
 +91-22-6273 8145

Vivek Sarin

 Research Associate
 vivek.sarin@nirmalbang.com
 +91-22-6273 8176

DISCLOSURES

This Report is published by Nirmal Bang Equities Private Limited (hereinafter referred to as "NBEPL") for private circulation. NBEPL is a registered Research Analyst under SEBI (Research Analyst) Regulations, 2014 having Registration no. INH000001436. NBEPL is also a registered Stock Broker with National Stock Exchange of India Limited and BSE Limited in cash and derivatives segments.

NBEPL has other business divisions with independent research teams separated by Chinese walls, and therefore may, at times, have different or contrary views on stocks and markets.

NBEPL or its associates have not been debarred / suspended by SEBI or any other regulatory authority for accessing / dealing in securities Market. NBEPL, its associates or analyst or his relatives do not hold any financial interest in the subject company. NBEPL or its associates or Analyst do not have any conflict or material conflict of interest at the time of publication of the research report with the subject company. NBEPL or its associates or Analyst or his relatives do not hold beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of this research report.

NBEPL or its associates / analyst has not received any compensation / managed or co-managed public offering of securities of the company covered by Analyst during the past twelve months. NBEPL or its associates have not received any compensation or other benefits from the company covered by Analyst or third party in connection with the research report. Analyst has not served as an officer, director or employee of Subject Company and NBEPL / analyst has not been engaged in market making activity of the subject company.

Analyst Certification: I/We, Gaurant Dadwal, the research analyst and Vivek Sarin, the research associate are the author of this report, hereby certify that the views expressed in this research report accurately reflects my/our personal views about the subject securities, issuers, products, sectors or industries. It is also certified that no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst(s) principally responsible for the preparation of this research report and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. NBEPL is not soliciting any action based upon it. Nothing in this research shall be construed as a solicitation to buy or sell any security or product, or to engage in or refrain from engaging in any such transaction. In preparing this research, we did not take into account the investment objectives, financial situation and particular needs of the reader.

This research has been prepared for the general use of the clients of NBEPL and must not be copied, either in whole or in part, or distributed or redistributed to any other person in any form. If you are not the intended recipient you must not use or disclose the information in this research in any way. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. NBEPL will not treat recipients as customers by virtue of their receiving this report. This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject NBEPL & its group companies to registration or licensing requirements within such jurisdictions.

The report is based on the information obtained from sources believed to be reliable, but we do not make any representation or warranty that it is accurate, complete or up-to-date and it should not be relied upon as such. We accept no obligation to correct or update the information or opinions in it. NBEPL or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. NBEPL or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

This information is subject to change without any prior notice. NBEPL reserves its absolute discretion and right to make or refrain from making modifications and alterations to this statement from time to time. Nevertheless, NBEPL is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.

Before making an investment decision on the basis of this research, the reader needs to consider, with or without the assistance of an adviser, whether the advice is appropriate in light of their particular investment needs, objectives and financial circumstances. There are risks involved in securities trading. The price of securities can and does fluctuate, and an individual security may even become valueless. International investors are reminded of the additional risks inherent in international investments, such as currency fluctuations and international stock market or economic conditions, which may adversely affect the value of the investment. Opinions expressed are subject to change without any notice. Neither the company nor the director or the employees of NBEPL accept any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this research and/or further communication in relation to this research. Here it may be noted that neither NBEPL, nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profit that may arise from or in connection with the use of the information contained in this report.

Copyright of this document vests exclusively with NBEPL.

Our reports are also available on our website www.nirmalbang.com

Access all our reports on Bloomberg, Thomson Reuters and Factset.

Team Details:			
Name		Email Id	Direct Line
Rahul Arora	CEO	rahul.arora@nirmalbang.com	-
Girish Pai	Head of Research	girish.pai@nirmalbang.com	+91 22 6273 8017 / 18
Dealing			
Ravi Jagtiani	Dealing Desk	ravi.jagtiani@nirmalbang.com	+91 22 6273 8230, +91 22 6636 8833
Pradeep Kasat	Dealing Desk	pradeep.kasat@nirmalbang.com	+91 22 6273 8100/8101, +91 22 6636 8831
Michael Pillai	Dealing Desk	michael.pillai@nirmalbang.com	+91 22 6273 8102/8103, +91 22 6636 8830

Nirmal Bang Equities Pvt. Ltd.

Correspondence Address

B-2, 301/302, Marathon Innova,
 Nr. Peninsula Corporate Park,
 Lower Parel (W), Mumbai-400013.

Board No. : 91 22 6273 8000/1; Fax. : 022 6273 8010