

Automobile/Automobile Ancillary Sectors

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Lower Volume And Margin To Restrict PAT Growth

We expect the companies in our coverage universe to report a decline in 3QFY19 earnings on YoY as well as QoQ basis on account of multiple headwinds like waning demand, unfavourable operating scenario and rising commodity costs. We expect the earnings to fall 3%/18% on YoY/QoQ basis, respectively. However, on the sales front we expect a low single-digit YoY increase, supported by two-wheeler (2W) volume growth YoY and product mix improvement following price hikes. Commercial vehicle (CV) segment fared the worst in 3QFY19, while passenger vehicles (PV) posted low single-digit volume growth. The two-wheeler segment was plagued by heavy channel inventory, while tractors witnessed double-digit despatches in case of most players. As regards margins, we expect our coverage universe to report ~200bps YoY and ~110bps QoQ fall in margins because of year-end discounts and input cost pressure.

Volume growth remains tepid: The volume growth of original equipment manufacturers (OEMs) of CVs, PVs and two-wheelers was impacted in 3QFY19 because of demand side pressure arising from a slew of factors like increased cost of ownership, rising financing and fuel costs along with limited new model launches. Car sales experienced a dry festive season with dealers consequently left with excess inventory following weak demand. Two-wheeler sales experienced a similar fallout, but fared better YoY, while CV sales were hit by combination of a high base, selective financing and dampened consumer sentiment. VST Tillers' volume was the weakest, reporting double-digit YoY decline because of a sharp fall in tiller sales. We expect the net sales/EBITDA/PAT of our coverage universe to post 5%/(8%)/(3%) YoY growth, respectively in 3QFY19. We expect Maruti Suzuki India to post low single-digit sales growth on account of YoY decline in volume and witness a fall in earnings because of reduced profitability. Ashok Leyland is likely to be affected by weakness in volume and higher discounts. Eicher Motors' earnings will register a drag on poor sales performance in December 2018.

Margins likely to fall YoY and QoQ: We expect the margins of most companies in our coverage universe to fall YoY and QoQ because of the rise in raw material costs and higher discount compared to the previous year. Following higher discount, currency depreciation and lower volume, we expect the margins of most companies to fall ~200bps YoY and ~110bps QoQ in our coverage universe. Maruti Suzuki India, Bajaj Auto, Balkrishna Industries and Ashok Leyland are expected to report a 200bps-300bps fall in margins on YoY basis, while VST Tillers is likely to witness ~650bps drop because of lower revenue contribution from tillers in its portfolio in 3QFY19. Swaraj Engines and Gabriel are likely to witness a YoY increase in margins. We expect the companies in our coverage universe to report EBITDA decline of 8%/18% on YoY/QoQ basis, respectively, while PAT is likely to decline 3%YoY and 18% QoQ.

Exhibit 1: Quarterly volume

Volume (units)	3QFY18	2QFY19	3QFY19	YoY (%)	QoQ (%)
Hero MotoCorp	17,09,106	21,34,047	17,98,905	5.3	(15.7)
Bajaj Auto	10,01,469	13,39,377	12,59,817	25.8	(5.9)
TVS Motor	8,26,285	10,87,541	9,89,787	19.8	(9.0)
Maruti Suzuki	4,31,112	4,84,848	4,28,643	(0.6)	(11.6)
Royal Enfield	2,06,586	2,10,102	1,94,473	(5.9)	(7.4)
Ashok Leyland	46,652	51,958	43,763	(6.2)	(15.8)
M&M Tractor	81,304	78,045	90,729	11.6	16.3
VST-Tillers	7,003	5,396	4,507	(35.6)	(16.5)
VST-Tractors	2,111	2,087	2,063	(2.3)	(1.1)

(Rsmn) Companies	Revenues			EBITDA			EBITDA margin (%)			PAT		
	3QFY19E	YoY (%)	QoQ (%)	3QFY19E	YoY (%)	QoQ (%)	3QFY18	2QFY19	3QFY19E	3QFY19E	YoY (%)	QoQ (%)
Maruti Suzuki	1,98,504	2.9	(11.5)	26,997	(11.1)	(21.3)	15.8	15.3	13.6	17,242	(4.2)	(23.0)
Hero MotoCorp	76,709	5.0	(15.6)	10,816	(6.6)	(21.5)	15.9	15.2	14.1	7,729	(4.0)	(20.8)
Bajaj Auto	73,973	16.1	(7.4)	12,132	(1.5)	(9.7)	19.3	16.8	16.4	10,606	11.4	(8.0)
TVS Motor	44,583	21.0	(10.7)	3,388	18.1	(20.9)	7.8	8.6	7.6	1,511	(2.1)	(28.5)
Swaraj Engines	2,019	10.2	(18.3)	313	21.9	(22.0)	14.0	16.2	15.5	205	18.8	(19.3)
VST Tillers	1,304	(21.3)	(9.8)	143	(50.5)	416.0	17.5	1.9	11.0	236	(24.9)	156.5
Eicher Motors	22,225	(1.8)	(7.6)	6,690	(6.9)	(9.1)	31.7	30.6	30.1	4,667	(1.1)	(6.5)
Gabriel	4,915	10.0	(9.2)	464	14.9	(10.0)	9.0	9.5	9.4	255	18.7	(11.8)
Balkrishna Ind.	12,413	6.9	(9.4)	3,343	(5.0)	(11.9)	30.3	27.7	26.9	1,956	3.2	(12.0)
Ashok Leyland	65,695	(8.0)	(13.7)	5,913	(25.0)	(26.6)	11.0	10.6	9.0	3,245	(27.9)	(29.4)
Jamna Auto	5,173	10.0	(5.7)	632	2.9	(7.1)	13.1	12.4	12.2	331	4.4	(6.8)
Grand Total	5,07,512	4.7	(11.5)	70,830	(8.4)	(18.3)	15.9	15.1	14.0	47,981	(2.6)	(18.1)

Source: Companies, Nirmal Bang Institutional Equities Research

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