

RESULT PREVIEW (4Q FY18E)

AUTOMOBILES

12-Apr-18

Company	Reco	Target
ASHOKLEY	ACCUMULATE	159
BAJAJ-AUTO	BUY	3450
EICHERMOT	NEUTRAL	28009
ESCORTS	BUY	1050
HEROMOTOCO	ACCUMULATE	4150
MARUTI	HOLD	9367
TVSMOTOR	BUY	730

Robust Volume growth to fuel revenue growth & margins

The automotive OEMs will report strong quarterly result in 4QFY18. The OEMs have reported healthy volume growth on the back of improving rural sentiments, rising premium segment vehicles demand and increasing infrastructure & road construction segment demand. The commodity prices have risen in last 2 quarters but price hikes taken during the quarter will partially offset the margin pressure. The spike in bond yield by more than 100 bps in last 6 months will lead to lower other income for the companies which have higher cash surplus.

Key parameters to watch-

- ☑ **Revenue Growth:** We expect OEMs to report healthy revenue growth in 4QFY18 as they have reported strong volume growth in 4QFY18. The growth drivers for 2 wheeler and passenger vehicle players remained festive season, rising income level in urban areas leading to Premiumisation and improving rural sentiments. The growth in the commercial vehicle segment was driven by new product launches, healthy demand from road construction segment, overloading ban in some states, growing demand for FMCG products in rural areas and rising e-commerce sector. We expect realisation of 2 wheeler and passenger vehicle OEMs to remain on the higher side considering the increasing Premiumisation and price hikes taken during the quarter. Commercial vehicle segment realisation may decline due to rising sales of I CVs and heavy discounting in the industry.
- ☑ **Raw Material cost:** As the raw material cost is a major element of the cost driver consisting more than 65% of the total cost pie. The OEMs have been witnessing cost pressure due to rising commodity prices since last 2 quarters. The steel prices have risen by 7%QoQ, aluminium prices have risen by 5%QoQ and crude have risen by almost 17%QoQ during the 3QFY18. However the OEMs have tried to pass on most of the increase but considering the competitive intensity some of the players like; ASHOKLEY, HEROMOTOCO and BAJAJ-AUTO may have 1-1.5% pressure on the margins.
- ☑ **EBITDA Margin:** We expect that the EBITDA margin of TVSMOTOR, ESCORTS and MARUTI to expand most among the peers because of shift in the product mix towards high margin products, better cost control and operating leverage benefit on the back of higher volumes.
- ☑ **Other Income:** Other income forms a significant portion of the PAT for some of the major OEMs like; MARUTI, BAJAJ-AUTO and HEROMOTOCO. The spike in bond yield by more than 100 bps in last 6 months will lead to lower other income for the companies which have higher cash surplus.

Sector View

Automobile sector has many levers of growth including increasing demand for premium segment vehicles, improving rural sentiments, rising income level, good monsoon and rising infra and construction activity in the country hence we have overall positive view on the sector. Our top picks are ASHOKLEY, BAJAJ-AUTO, ESCORTS and TVSMOTOR. We also continue to like HEROMOTOCO and MARUTI.

NAVEEN KUMAR DUBEY
naveen.dubey@narnolia.com

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CMP	145
Target Price	159
Upside	10%
Reco	ACCUMULATE
52wk Range H/L	152/81
Mkt Cap (Rs Cr)	42399

	(Rs in Crore)				
ASHOKLEY	4Q FY18e	4Q FY17	YoY Gr %	3Q FY18	QoQ Gr %
Volume (in units)	58735	47621	23%	46627	26%
Revenue	8609	6618	30%	7113	21%
EBITDA	1021	730	40%	788	30%
PAT	629	495	27%	450	40%

Key Highlights

With increasing infrastructure and road construction activity has led to demand for M&HCVs. Considering the rising steel prices the company has taken price hike of 1-1.5%. We expect that the higher discounting in the industry refrains company from taking further price hikes to offset full impact. We expect 90bps YoY improvement in EBITDA margin.

CMP	2755
Target Price	3450
Upside	25%
Reco	BUY
52wk Range H/L	3473/2695
Mkt Cap (Rs Cr)	79732

	(Rs in Crore)				
BAJAJ-AUTO	4Q FY18e	4Q FY17	YoY Gr %	3Q FY18	QoQ Gr %
Volume (in units)	1045378	787627	33%	1001449	4%
Revenue	6640	4897	36%	6369	4%
EBITDA	1246	905	38%	1232	1%
PAT	1097	862	27%	1014	8%

Key Highlights

Higher contribution of premium segment motorcycles and 3Ws will offset the raw material cost pressure and we expect that the company will sustain the EBITDA margins at 19% level. Other income to remain at lower level due to spike in bond yield.

CMP	30689
Target Price	28009
Upside	-9%
Reco	NEUTRAL
52wk Range H/L	33484/25316
Mkt Cap (Rs Cr)	83645

	(Rs in Crore)				
EICHERMOT	4Q FY18e	4Q FY17	YoY Gr %	3Q FY18	QoQ Gr %
Volume (in units)	227042	178228	27%	206586	10%
Revenue	2531	1888	34%	2269	12%
EBITDA	797	585	36%	707	13%
PAT	580	459	26%	521	11%

Key Highlights

With rising steel and aluminum cost the company will face some margin pressure. The depreciation and fixed cost to remain on the higher side during the 4QFY18 due to new capacity addition.

CMP	906
Target Price	1050
Upside	16%
Reco	BUY
52wk Range H/L	922/535
Mkt Cap (Rs Cr)	11103

	(Rs in Crore)				
ESCORTS	4Q FY18e	4Q FY17	YoY Gr %	3Q FY18	QoQ Gr %
Volume (in units)	23568	14978	57%	18930	25%
Revenue	1473	1022	44%	1205	22%
EBITDA	175	74	136%	145	21%
PAT	108	59	81%	92	17%

Key Highlights

The company will witness commodity pressure but with the healthy volume growth in the tractor and construction equipment segment we expect the company will get benefit of operating leverage and will post EBITDA margin to the tune of 12%.

RESULT PREVIEW (4Q FY18E)

CMP	3729
Target Price	4150
Upside	11%
Reco	ACCUMULATE
52wk Range H/L	4200/3183
Mkt Cap (Rs Cr)	74468

	(Rs in Crore)					
HEROMOTOCO	4Q FY18e	4Q FY17	YoY Gr %	3Q FY18	QoQ Gr %	
Volume (in units)	2001571	1621805	23%	1709106	17%	
Revenue	8641	6915	25%	7305	18%	
EBITDA	1417	958	48%	1158	22%	
PAT	998	718	39%	805	24%	

Key Highlights

With the rising income level in rural areas the volume mix has started shifting towards 125cc vehicles which will result in margin expansion for the company during the quarter. Other income to remain under pressure due to spike in bond yield and it will restrict the further PAT growth.

CMP	9297
Target Price	9367
Upside	1%
Reco	HOLD
52wk Range H/L	10000/6024
Mkt Cap (Rs Cr)	280866

	(Rs in Crore)					
MARUTI	4Q FY18e	4Q FY17	YoY Gr %	3Q FY18	QoQ Gr %	
Volume (in units)	461773	414389	11%	431112	7%	
Revenue	21033	18333	15%	19283	9%	
EBITDA	3247	2549	27%	3020	8%	
PAT	2028	1709	19%	1799	13%	

Key Highlights

Increase in premium segment vehicles demand and improving rural sentiments has led to healthy volume growth. Depreciation to remain on the higher side due to slow ramp up of Gujarat plant. Although higher capacity utilization will lead to operating leverage benefit for the company. Other income to remain under pressure due to spike in bond yield.

CMP	630
Target Price	730
Upside	16%
Reco	BUY
52wk Range H/L	795/462
Mkt Cap (Rs Cr)	29930

	(Rs in Crore)					
TVSMOTOR	4Q FY18e	4Q FY17	YoY Gr %	3Q FY18	QoQ Gr %	
Volume (in units)	889133	674870	32%	826285	8%	
Revenue	4024	2845	41%	3685	9%	
EBITDA	326	162	102%	287	14%	
PAT	195	127	54%	154	26%	

Key Highlights

With higher volume growth towards high margin premium motorcycle segment, 3Ws and sharp improvement in exports we expect that the margins to expand close to 250 bps YoY to 8.1% in 4QFY18.

Peer Comparison	EPS Growth %		RoE%		P/B(x)		P/E(x)	
	FY18e	FY19e	FY18e	FY19e	FY18e	FY19e	FY18e	FY19e
ASHOKLEY	24	29	21	23	5.7	4.8	27	21
BAJAJ-AUTO	0.9	30	21	23	4	3.4	19.4	14.9
EICHERMOT	25	13	29	26	10.9	8.5	37.1	32.9
ESCORTS	148	28	17	18	4.8	4	28.7	22.4
HEROMOTOCO	6	19	29	27	5.7	4.6	19.7	16.6
MARUTI	6	9	19	18	6.6	5.8	35.1	32.3
TVSMOTOR	35	65	25	32	11	8.5	43.4	26.3



Narnolia Securities Ltd

201 | 2nd Floor | Marble Arch Building | 236B-AJC Bose
Road | Kolkata-700 020 , Ph : 033-40501500

email: narnolia@narnolia.com,

website : www.narnolia.com

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