

RESULT PREVIEW (1Q FY19E)

AUTOMOBILES

13-Jul-18

| Company | Recommendation |
|------------|----------------|
| ASHOKLEY | BUY |
| BAJAJ-AUTO | ACCUMULATE |
| EICHERMOT | BUY |
| ESCORTS | BUY |
| HEROMOTOCO | BUY |
| MARUTI | HOLD |
| TVSMOTOR | NEUTRAL |

Robust Volume growth to fuel revenue growth

The automobile industry is expected to post strong double digit revenue growth on the back of healthy volume growth. Rising commodity prices remains a concern in 1QFY19 also but shift towards better product mix, higher volumes leading to operating leverage benefit and price hikes will mitigate the risk up to some extent. We expect 30%/56%/73%YoY Revenue/EBITDA/PAT growth for companies in our coverage universe respectively.

Key parameters to watch-

- Revenue Growth:** We expect OEMs to report healthy revenue growth of around 30%YoY in 1QFY19. The Passenger vehicle industry grew by over 20%YoY in 1QFY19. The growth is on the back of base effect due to GST implementation, strong sales in rural as well as urban markets. The CV segment continues to post robust volume growth of over 52%YoY on account of healthy infra activity and robust demand in the private consumption led sectors. Two wheeler industry has posted 16%YoY growth on the back of new launches and strong revival in export and rural markets. Three wheeler sales soared by 54%YoY based on new permits allotted in some states and discontinuation of permits in Maharashtra. 2 wheeler OEMs realisation may not see significant increase due to higher rural sales while passenger vehicle realisation to remain on the higher side considering the increasing Premiumisation and price hikes taken during the quarter. In the commercial vehicles space increase in realisation due to sales of higher tonnage vehicles may get marred by 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 3 quarters. The steel prices have risen by 11%QoQ, aluminum prices have risen by 2%QoQ and crude have risen by almost 10%QoQ during the 4QFY18. Most of the OEMs have taken the larger hit in 4QFY18 itself, so we do not expect sharp increase in raw material cost in 1QFY19.
- EBITDA Margin:** We expect that the EBITDA margin of EICHERMOT, TVSMOTOR, HEROMOTOCO and MARUTI to expand most among the peers because of shift in the product mix towards high margin products, better cost control, price hikes and operating leverage benefit on the back of higher volumes. However, due to increased competitive intensity and higher discounting ASHOKLEY may witness approx 200bps QoQ contraction in the margins.

Sector View

Going ahead the automobile sector growth will be driven by new product launches, improving rural economy, premiumisation, BS-VI, on-going infra activities. So overall, we have positive view on the sector and our top picks include; ASHOKLEY, BAJAJ-AUTO, M&M, ESCORTS, MARUTI.

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SWATI SINGH

RESULT PREVIEW (1Q FY19E)

(Rs in Crore)

| ASHOKLEY | 1Q FY19e | 1Q FY18 | YoY Gr % | 4Q FY18 | QoQ Gr % |
|-------------------|-----------------|----------------|-----------------|----------------|-----------------|
| Volume (in units) | 42127 | 28484 | 48% | 58735 | -28% |
| Revenue | 6408 | 4238 | 51% | 8772 | -27% |
| EBITDA | 621 | 306 | 103% | 1033 | -40% |
| PAT | 364 | 108 | 237% | 668 | -46% |

Key Highlights

The volumes have grown sharply by 48%YoY on the back of infra & mining demand, overloading ban and increasing penetration of FMCG sector. Due to rising commodity prices, increased competitive intensity and higher discounting ASHOKLEY may witness approx 200bps QoQ contraction in the margins.

(Rs in Crore)

| BAJAJ-AUTO | 1Q FY19e | 1Q FY18 | YoY Gr % | 4Q FY18 | QoQ Gr % |
|-------------------|-----------------|----------------|-----------------|----------------|-----------------|
| Volume (in units) | 1226641 | 888434 | 38% | 1045378 | 17% |
| Revenue | 7803 | 5442 | 43% | 6773 | 15% |
| EBITDA | 1464 | 938 | 56% | 1316 | 11% |
| PAT | 1267 | 837 | 51% | 1175 | 8% |

Key Highlights

Sharp recovery in exports, strong growth momentum in domestic motorcycles and three wheeler sales led to 38%YoY volume growth in 1QFY19. 4-5% discount on entry level bikes in order to gain market share coupled with rising commodity prices can negatively impact the margins by close to 60bps QoQ.

(Rs in Crore)

| EICHERMOT | 1Q FY19e | 1Q FY18 | YoY Gr % | 4Q FY18 | QoQ Gr % |
|-------------------|-----------------|----------------|-----------------|----------------|-----------------|
| Volume (in units) | 225361 | 183998 | 22% | 227042 | -1% |
| Revenue | 2522 | 2001 | 26% | 2528 | 0% |
| EBITDA | 816 | 621 | 31% | 797 | 2% |
| PAT | 627 | 460 | 36% | 462 | 36% |

Key Highlights

With continued waiting period of classic 350 and increasing traction in 500cc segment bikes resulted in 22%YoY volume growth. Despite rising steel and aluminum cost the overall margins are expected to expand by approx 90 bps QoQ. Depreciation and fixed cost are likely to remain on the higher side due to new capacity addition.

(Rs in Crore)

| ESCORTS | 1Q FY19e | 1Q FY18 | YoY Gr % | 4Q FY18 | QoQ Gr % |
|-------------------|-----------------|----------------|-----------------|----------------|-----------------|
| Volume (in units) | 24494 | 17561 | 39% | 23568 | 4% |
| Revenue | 1418 | 1142 | 24% | 1436 | -1% |
| EBITDA | 169 | 98 | 72% | 174 | -3% |
| PAT | 113 | 63 | 79% | 113 | 0% |

Key Highlights

Tractor volumes grew by 39%YoY on the back of rising rural income and healthy monsoon expectation. Increasing sales of lower HP tractors may lead to lower realisation and higher commodity cost may lead to 20bps QoQ contraction in margins.

RESULT PREVIEW (1Q FY19E)

(Rs in Crore)

| HEROMOTOCO | 1Q FY19e | 1Q FY18 | YoY Gr % | 4Q FY18 | QoQ Gr % |
|-------------------|----------|---------|----------|---------|----------|
| Volume (in units) | 2104949 | 1849375 | 14% | 2001571 | 5% |
| Revenue | 9006 | 7972 | 13% | 8564 | 5% |
| EBITDA | 1468 | 1296 | 13% | 1371 | 7% |
| PAT | 1014 | 914 | 11% | 967 | 5% |

Key Highlights

The company posted 14%YoY volume growth based on strong rural sales. Higher sales in the 100cc segment motorcycles and declining trend witnessed in scooter segment may restrict the margin expansion in 1QFY19.

(Rs in Crore)

| MARUTI | 1Q FY19e | 1Q FY18 | YoY Gr % | 4Q FY18 | QoQ Gr % |
|-------------------|----------|---------|----------|---------|----------|
| Volume (in units) | 490479 | 394571 | 24% | 461773 | 6% |
| Revenue | 22025 | 17546 | 26% | 21166 | 4% |
| EBITDA | 3190 | 2309 | 38% | 2999 | 6% |
| PAT | 2109 | 1557 | 35% | 1882 | 12% |

Key Highlights

Increase in premium segment vehicles demand and improving rural sentiments has led to 24%YoY volume growth. Rising commodity prices may impact gross margin in 1QFY19 but reduction in discount levels and sharp increase in contribution from premium products will keep the overall margins protected.

(Rs in Crore)

| TVSMOTOR | 1Q FY19e | 1Q FY18 | YoY Gr % | 4Q FY18 | QoQ Gr % |
|-------------------|----------|---------|----------|---------|----------|
| Volume (in units) | 928274 | 802108 | 16% | 889133 | 4% |
| Revenue | 4199 | 3400 | 24% | 3993 | 5% |
| EBITDA | 330 | 211 | 56% | 281 | 17% |
| PAT | 182 | 129 | 41% | 166 | 10% |

Key Highlights

Volumes grew by 16%YoY on the back of strong 3 wheeler sales and exports. Stiff competition in entry level motorcycles and scooters restricted the company from taking any significant price hike despite rising commodity prices. However, strong sales of higher margin 3 wheeler segment and exports will drive the margins upward.

| Peer Comparison | EPS growth % | | ROE % | | P/B (x) | | P/E (x) | |
|-----------------|--------------|-------|-------|-------|---------|-------|---------|-------|
| | FY19E | FY20E | FY19E | FY20E | FY19E | FY20E | FY19E | FY20E |
| ASHOKLEY | 33 | 29 | 25 | 27 | 4.8 | 4.0 | 19.1 | 14.9 |
| BAJAJ-AUTO | 12 | 15 | 20 | 21 | 4.0 | 3.5 | 19.5 | 16.9 |
| EICHERMOT | 32 | 22 | 28 | 27 | 8.4 | 6.5 | 29.5 | 24.2 |
| ESCORTS | 30 | 20 | 17 | 17 | 3.4 | 2.8 | 19.7 | 16.4 |
| HEROMOTOCO | 11 | 13 | 30 | 29 | 5.1 | 4.4 | 17.2 | 15.2 |
| MARUTI | 23 | 19 | 20 | 21 | 5.9 | 5.1 | 29.6 | 24.8 |
| TVSMOTOR | 29 | 40 | 24 | 27 | 8.0 | 6.4 | 32.8 | 23.5 |

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