

Sector Update

Industry **Automobiles**

Monthly Auto Volumes

Muted customer sentiments led to slowdown in demand

Company YoY Growth

ASHOKLEY	-20%
BAJAJ-AUTO	18%
EICHERMOT	-13%
ESCORTS	28%
HEROMOTOCO	-4%
M&M	-1%
MARUTI	-1%
TATAMOTORS	-11%
TVSMOTOR	6%

The automobile industry has seen sharp inventory correction at dealer level as there has been inventory pile up due to low consumer sentiments during festive season. The passenger vehicle segment growth remained muted due to delayed new model launches and increased fuel prices followed by ownership cost. MARUTI, M&M and TATAMOTORS sales has declined by 1%, 3% and 1% YoY respectively. CV sales also declined due to increased fuel prices hampering profitability and addition of capacity due to new axle load norms. ASHOKLEY, TATAMOTORS and M&M sales declined by 20%, 22% and 4% YoY respectively while VECV posted a growth of 2%YoY. HEROMOTOCO sales declined by 4% YoY due to price hikes and increased insurance cost during festive season while EICHERMOT sales declined by 13%YoY largely due to new model launches by the competitors. BAJAJ-AUTO and TVSMOTOR posted a growth of 31% and 4%YoY respectively on account of higher discounting, sales promotional activities and strong scooter demand. On the 3 wheeler side, TVSMOTOR and M&M posted a growth of 37% and 21% respectively while BAJAJ-AUTO sales declined by 26%YoY due to higher base. On the Tractor sales, M&M posted a decline in sales by 5% YoY due to lower Rabi crop sowing while ESCORTS posted a growth of 28% YoY growth largely led by stronger sales in exports market and lower base.

Commercial Vehicle Industry:

The commercial vehicle industry sales declined by 16% YoY in December 2018. The MHCV segment was impacted due to increased fuel prices which affected the profitability. The addition of capacity with the existing vehicles being registered for higher axle load also impacted sales. LCV segment demand improved because of increase in e-commerce sectors demand, hub & spoke model and rural consumption supported by new products. ASHOKLEY, TATAMOTORS and M&M reported a sales decline of 20%, 22%, 4% respectively while VECV posted 2% YoY growth in sales.

Passenger Vehicle Industry:

The passenger vehicle industry sales remained muted in December 2018. Delayed new model launches, higher inventory pile up at dealers level and tight liquidity affected the sales. The pressure on the OEM's is also increasing as the sales growth in metro cities like Chennai, Mumbai and Delhi have not increased and rural sales are outpacing them. However, in order to improve sales, the OEMs are also providing higher discount and offers to improve the sentiment. MARUTI, M&M and TATAMOTORS sales has declined by 1%, 3% and 1% YoY respectively.

2Ws and 3Ws:

The two-wheeler OEMs posted an overall growth of 5% YoY growth in December. The increased cost of two-wheeler insurance ahead of the festive season, tight liquidity in the market and higher inventory pile up during the festive season impacted the overall momentum of growth in the industry. However aggressive discounting, sales promotional activities and the shift of consumer preference towards entry and sports segment maintained growth momentum. BAJAJ-AUTO and TVSMOTOR posted a growth of 31% and 4% respectively while HEROMOTOCO and EICHERMOT sales declined by 4% and 13% respectively. Overall three wheeler industry posted a sales decline of 14%YoY. BAJAJ-AUTO three wheelers sales declined by 26% YoY due to higher base while M&M and TVSMOTOR posted a growth of 21% and 37% YoY respectively.

Tractors:

Tractor industry volumes also remained muted in December. Lower Rabi crop sowing due to below average monsoon in South and West regions impacted the sales. Farm loan waivers, MSP hikes, increased reservoir level and good traction in exports market led to sales growth. M&M posted a sales decline of 5%YoY while ESCORTS posted a growth of 28% YoY during the month.

Top Picks :-

We continue to like; ASHOKLEY, BAJAJ-AUTO, M&M, ESCORTS and MARUTI from our coverage universe.

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ASHOKLEY	<i>Dec-18</i>	<i>Dec-17</i>	<i>YoY Gr</i>	<i>Nov-18</i>	<i>MoM</i>
MHCV	11295	15948	-29%	8718	30%
LCV	4198	3303	27%	4403	-5%

ASHOKLEY overall sales for the month of December 2018 de-grew by 20% YoY to 15493 units. The M&HCV sales declined by 29% YoY to 11295 units due to increased fuel prices, delay in execution of infra projects and liquidity crunch. Light commercial vehicles volume rose by 27% YoY to 4198 units during the month. The growth has been led by increase in hub & spoke model and pick up in rural demand due to increasing FMCG penetration. The company is planning to make new launches in the LCV segment in next 12-18 months. Going forward, the management expects Q4FY19 to be good quarter for the company as well as for the CV industry. Further, the company also expects FY19-20 to be a good growth year and FY21 to be flattish as it will be a transition year into BS VI norms, but scrappage policy may soar up the growth to some level in FY21.

BAJAJ-AUTO	<i>Dec-18</i>	<i>Dec-17</i>	<i>YoY Gr</i>	<i>Nov-18</i>	<i>MoM</i>
Domestic	180351	149509	21%	234818	-23%
Exports	165848	143038	16%	172112	-4%

BAJAJ-AUTO recorded volume growth of 18% YoY in December 2018. The domestic 2Ws sales grew by 39% YoY on the back of heavy discounting practice and various sales promotional activities in the entry-level motorcycles during the festive season. The sports segment grew by 25% while the mid segment grew only by 3%. The management expects the domestic motorcycle segment to grow by 10-15% in FY19. The 2Ws exports grew by 22% YoY on the back of healthy growth in various geographies. Domestic 3Ws sales de-grew by 37% YoY due to higher base effect, while 3Ws exports also de-grew by 11% YoY uncertainties of banning 3 wheelers in Egypt market. Generally in December to February months, there is a slowdown in exports market which impacts sales. Going forward, the management expects to sell around 450000 units per month in Q4FY19.

EICHERMOT	<i>Dec-18</i>	<i>Dec-17</i>	<i>YoY Gr</i>	<i>Nov-18</i>	<i>MoM</i>
Royal Enfield	58278	66968	-13%	65744	-11%
VECV	6236	6087	2%	4720	32%

EICHERMOT Royal Enfield posted 13% YoY decline in domestic volumes in December 2018. Models with capacity up to 350cc have de-grown by 15% YoY due to the launch of Jawa motorcycles. Models with capacity above 350cc have grown by 21% YoY. The management expects to see a good demand of newly launched 650 twins models in the domestic market. Exports volumes have also increased by 41% YoY. The company expects exports to be higher for RE 650 twin models overtime. VECV volumes increased by 2% YoY. Domestic volumes grew by 1% YoY while exports grew by 10% YoY during the month. Consumer sentiment remained slightly subdued as customers were waiting to see a sustained level of improvement in the factors like fuel prices and profitability before making investments in new vehicles. Going forward, the company sees strong growth momentum in the industry and a growing demand for modernized commercial vehicle fleet from the transporters.

ESCORTS	<i>Dec-18</i>	<i>Dec-17</i>	<i>YoY Gr</i>	<i>Nov-18</i>	<i>MoM</i>
Domestic	4212	3476	21%	7641	-45%
Exports	386	130	197%	364	6%

ESCORTS have reported a growth of 28% YoY in December 2018. The domestic tractor volume grew by 21% YoY to 4212 units. This growth was registered due to improving income level of farmers (higher MSP) and better monsoon in Northern region of the country. The exports volume also showed a robust growth of 197% YoY to 386 units on the back of growth in various geographies like Nepal and Bhutan. Going ahead, we expect that new product launches, lower tractor penetration, government's thrust towards doubling the farm income by 2022 and strong brand positioning will drive the Escorts volumes in years to come. The management has reiterated its volume growth guidance of 12-14% for FY19.

HEROMOTOCO	<i>Dec-18</i>	<i>Dec-17</i>	<i>YoY Gr</i>	<i>Nov-18</i>	<i>MoM</i>
2W	453985	472731	-4%	610252	-26%

HEROMOTOCO volume growth declined by 4% YoY to 453985 units in December 2018. The increased cost of two-wheeler insurance ahead of the festive season, higher inventory pile up at dealer's level due to lower customer sentiments during the festive season and the prevailing liquidity crunch in the market impacted the overall momentum of growth in the industry during the entire third quarter. The cost of two-wheelers will further go up with the new set of safety norm regulations, followed by the transition to BS-VI emission norms which will further put severe stress on the extremely cost-sensitive commuters. Going ahead, with an improved liquidity in the market, and the upcoming festive season in many parts of the country, the industry is expecting a positive turnaround in the fourth quarter.

M&M	<i>Dec-18</i>	<i>Dec-17</i>	<i>YoY Gr</i>	<i>Nov-18</i>	<i>MoM</i>
Automotive	39755	39200	1%	45101	-12%
Farm Equipment	17404	18288	-5%	25949	-33%

M&M domestic volumes declined by 1% YoY in December 2018 to 36690 units. The passenger vehicle segment de-grew by 3% YoY. Tight liquidity and lower buyer sentiment continued de-growth for December. The company saw a massive inventory built up due to low demand and December month has been used to sell-off the piled up inventory. Commercial vehicle segment showed a de-growth of 4%YoY. The 3W segment grew by 21% YoY and the exports grew robustly by 38% YoY with 3065 units. The farm equipment segment posted overall de-growth of 5% YoY during the month due to lower Rabi crop sowing and below average monsoon in Southern and Western part of the country. The domestic tractor volumes de-grew by 1% YoY while the tractor exports de-grew by 45% YoY. Going forward, the company expects to see good performance in Q4FY19, owing to the anticipated rural demand because of the harvesting season and the launch of new XUV300 in February 2019. In addition, the company expects to grow by 5% in tractor segment in Q4FY19.

MARUTI	<i>Dec-18</i>	<i>Dec-17</i>	<i>YoY Gr</i>	<i>Nov-18</i>	<i>MoM</i>
Domestic	121479	119286	2%	146018	-17%
Exports	6859	10780	-36%	7521	-9%

MARUTI overall sales declined by 1% YoY in December 2018 due to higher inventory pile up at dealer's level during the festive season and delayed launches of new model. The mini segment de-grew by 14% YoY due to the launch of new Santro, while compact segment de-grew by 4%YoY. The utility vehicle segment has shown some improvement in demand with the launch of new Brezza model with 6 weeks waiting period and sales have grown by 5%YoY. The mid size segment had grown robustly by 99% YoY as the new Ciaz model has been catching up the grip in the market. The LCV super carry volumes have touched over 1675 units with a robust growth of 131% YoY. Exports have de-grown by 36% YoY as there has been sales de-growth in Indonesian market. Going forward, the company is focusing on strong campaigns of discount and offers to improve the sentiment. With the new launches at the start of 2019, the company expects the demand to revive in Q4FY19.

TATAMOTORS	<i>Dec-18</i>	<i>Dec-17</i>	<i>YoY Gr</i>	<i>Nov-18</i>	<i>MoM</i>
Domestic	50440	54627	-8%	50470	0%
Exports	3999	6293	-36%	4604	-13%

TATAMOTORS sales for the month of December have declined by 11% YoY to 54439 units. Domestic PV segment posted a marginal increase in sales by 1% YoY due to good demand for new generation passenger vehicles. The company is gearing up for the launch of its SUV, Tata Harrier, in January 2019. On the CV front, the M&HCV segment saw a decline of 27% YoY to 11506 units. This segment was largely impacted due to drop in cargo sales as operators postponed their purchase due to low consumer sentiments. LCV segment also posted a decline of 5% YoY to 4846 units. SCV cargo and pick up segment continued its growth momentum and grew by 8% YoY to 16637 units. The commercial passenger carrier segment sales growth has declined by 22% YoY with 3461 units. This segment has been impacted due to the slowdown in the procurement of buses by STUs and the permits for private hiring. The exports declined by 36% YoY with 3999 units due to sharp total industry volume contraction in Bangladesh due to elections and political uncertainty in Sri Lanka.

TVSMOTOR	Dec-18	Dec-17	YoY Gr	Nov-18	MoM
Domestic	211133	209052	1%	261489	-19%
Exports	60262	47818	26%	58476	3%

TVSMOTOR has posted 6% YoY volume growth in December 2018. Overall two-wheeler segment has posted a growth of 4% YoY. The scooter and motorcycles segments have grown by 9%, 13% while mopeds have de-grown by 13% YoY respectively. Domestic two wheeler volumes grew by 1% YoY. The newly launched TVS Jupiter Grande during the festive season led to increase in sales. Export two wheeler volumes have shown a growth of 22% YoY. The company has expanded its presence with three product launches TVS Apache RR 310, TVS NTORQ 125 and TVS Apache RTR 160 4V in Peru market which has led to increase in sales. Overall three wheelers segment have also shown a volume growth of 37% YoY. Domestic three-wheeler segment de-grew by 7% YoY while export three wheeler volumes grew by 44% YoY.

OEMs December volume update:

Company	Dec-18	Dec-17	Nov-18	YoY %	MoM %	FY19YTD	FY18YTD	Change%
ASHOKLEY	15,493	19,251	13,121	-20%	18%	137,848	116,096	19%
BAJAJ-AUTO	346,199	292,547	406,930	18%	-15%	3,825,913	2,961,393	29%
EICHERMOT	58,278	66,968	65,744	-13%	-11%	629,936	593,451	6%
ESCORTS	4,598	3,606	8,005	28%	-43%	71,276	56,849	25%
HEROMOTOCO	453,985	472,731	610,252	-4%	-26%	6,037,901	5,581,286	8%
M&M	57,159	57,488	71,050	-1%	-20%	658,995	630,401	5%
MARUTI	128,338	130,066	153,539	-1%	-16%	1,403,970	1,317,801	7%
TATAMOTORS	54,439	60,920	55,074	-11%	-1%	536,306	434,520	23%
TVSMOTOR	271,395	256,870	319,965	6%	-15%	2,957,592	2,576,977	15%

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