

Automobile Industry Impact of demonetisation For Sales Number

Indian Automotive industry has been hampered by the ban of higher denomination currency notes. The major direct impact can be seen in the 2 Wheeler and Commercial vehicle segments. For 2 wheeler space large chunk of transaction takes place in hard cash and ~53% sales happen in rural areas, which makes situation even worse for the industry. Commercial vehicle segment has witnessed a steep decline in November monthly sales and the fleet owners have faced working capital issue due to this cash crunch issue in the economy. Passenger Vehicle and Tractor segment have also faced slow down. But volumes in the December month have shown the sign of recovery because of higher finance penetration in the rural as well as in urban areas. We expect that the automobile sector will recover largely in next couple of months going ahead.

Estimates of 3QFY17 Revenue & Margins (in Rs. crore)

Company	Revenue	Gr. (YoY)	EBITDA	Gr. (YoY)	Margin
MARUTI	16,973	13%	2,631	21%	16%
M&M	11,076	1%	1,310	6%	12%
ASHOKLEY	4,578	12%	533	24%	12%
FORCEMOT	704	-6%	57	21%	8%
TATAMOTORS	65,894	-9%	8,975	-4%	14%
HEROMOTOCO	6,330	-13%	965	-15%	15%
BAJAJ-AUTO	4,966	-11%	997	-15%	20%
TVSMOTOR	3,063	4%	222	10%	7%
EICHERMOT	1,843	44%	588	68%	32%

MARUTI- Maruti has reported 4% volume growth in 3QFY17 despite the current currency crunch situation in the country. Mini segment witnessed decline of 6% YoY but utility vehicle segment reported a robust growth of 88% YoY during the quarter. Due to higher sales of the premium segment vehicles we anticipate that the margins of the company may improve going forward.

M&M- M&M have reported 2% volume growth in 3QFY17. Farm Equipment segment volumes grew vigorously by 22% YoY and Automotive volumes de-grew by 8% YoY. Strong growth in Farm Equipment Segment will boost company's overall margins going forward.

ASHOKLEY- Ashok Leyland posted 6% YoY volume growth in the 3QFY17. M&HCV segment grew by 9% YoY and

LCV segment witnessed a decline of 3% YoY. We expect that the CV space is recovering very quickly to cater further demand from BS-IV and strengthening infrastructure activity. Strong volumes may lead to margins moving ahead.

FORCEMOT- Domestic Automotive volumes declined by 16% YoY and Exports Automotive volumes declined by 43% YoY in 3QFY17. We expect margins can be contracted due to rising commodity prices and de-growth in volumes.

TATAMOTORS- Tata Motors in the passenger vehicle space reported a robust volume growth of 28% YoY and 2% YoY growth in the commercial vehicle segment. JLR reported 8% growth YoY (90% growth in Jaguar and 9% decline in Land Rover YoY) in 3QFY17 on account of low priced model launches in both the brands during the quarter. We assume that the higher sales in the JLR and strong recovery in the PV and CV business may help the company to post margins up by 400 bps during the quarter.

HEROMOTOCO- Hero Motocorp witnessed sharp decline in the volumes by 13% YoY in 3QFY17. We expect that the company will witness contraction in margins because of lower volumes coupled with rising commodity prices.

BAJAJ-AUTO- Domestic two wheeler volumes de-grew by 3% while commercial vehicle volumes remain flat YoY. Export remained a bitter spot and witnessed a decline of 20% YoY in 3QFY17. Decline in the domestic 2 wheeler volumes, weak exports, unfavorable commodity prices and higher advertising cost will lead to reduction in the margins for the company.

TVSMOTOR- TVS Motors reported 4% volume growth YoY in 2 wheelers segment due to 27% growth in Mopeds. 3 wheelers volumes were declined by 39% YoY in 3QFY17. We expect poor product mix and rising raw material prices and rise in other expenses due to new launches will likely lead to 80 bps QoQ fall in margins.

EICHERMOT- Eicher posted 38% YoY volume growth in the 3QFY17 on account of higher sales of classic 350 models. We expect that the margins will further improve due to high volumes which results in to operating leverage for the company.

Conclusion :

We expect that the most of the automobile companies may see fall in the 3QFY17 earnings. In the two wheeler segment, Eicher Motors may report ~40% growth in the revenue. In the passenger vehicle segment, Maruti has been the least impacted due to demonetization and may report double digit growth in the topline during the quarter. In the commercial vehicle segment, Ashok Leyland has seen strong recovery and may post ~12% growth in the 3QFY17.