

India Equity Analytics

Results Preview Q1FY20 - Automobiles



Analyst

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AMRJ IN

CMP 631
Target 699
Upside 11%
Rating ACCUMULATE

	FY18	FY19	FY20E	FY21E
Roe%	16%	14%	15%	16%
Roce%	22%	20%	22%	22%
P/E	28.9	22.1	18.8	16.3
P/B	4.6	3.2	2.9	2.6
EV/Ebdita	15.4	11.2	9.8	8.8

	FY18	FY19	FY20E	FY21E	Q1FY19	Q4FY19	Q1FY20E
Capacity (mn units)							
4W	12.8	17.4	21.0	21.0	12.8	17.4	17.4
2W	15.0	16.0	18.0	18.0	15.0	16.0	16.0
Lead Prices-USD/MT	2375	2125	1993	1993	2,403	2,035	1,877
Segment Revenue							
Automotive	3,878	4,487	4,650	5,063	1,227	1,018	1,075
Industrial	2181	2306	2504	2726	551	548	579
<i>Financials</i>							
Sales	6,059	6,793	7,154	7,789	1,779	1,567	1,654
<i>Sales Gr</i>	14%	12%	5%	9%	19%	-1%	-7%
Ebdita	883	952	1,106	1,228	220	242	261
<i>Ebdita Gr</i>	4%	8%	16%	11%	14%	15%	19%
Net Profits	471	483	573	663	113	119	133
<i>Profit Gr%</i>	-1%	3%	19%	16%	13%	9%	18%
Ebdita Margin%	14.6%	14.0%	15.5%	15.8%	12.4%	15.5%	15.8%
Net Profit Margin%	7.8%	7.1%	8.0%	8.5%	6.3%	7.6%	8.1%

Std/Fig in Rs Cr

❑ Revenue growth is expected to decline by 7%YoY in 1QFY20. The degrowth was attributed to slowdown in both OEM and replacement market due to higher share of automotive segment. However, the industrial segment is expected to post growth on the back of UPS, motive power business and some improvement in telecom battery segment.

❑ EBITDA margins are expected to improve by 30 bps QoQ in 1QFY20 largely on account of reduction in commodity prices (lead and Sulphuric acid).

❑ The company has commissioned the stamped grid technology facility for two-wheeler battery manufacturing. The advanced stamped grid technology project for four-wheeler batteries is progressing and it is expected to be commissioned during FY20 with a total investment of Rs.540 crores.

❑ The capex outlay would be around Rs.400 crores for FY20 as well as for FY21 and it will be invested in new capacities, technologies and strengthen other segments such as electric 3 wheelers and solar power batteries.

Key Trackable this Quarter

❑ Replacement demand scenario

❑ Management's strategy to capture electric 3 wheeler battery opportunity

We value the stock at 18x FY21E EPS. ACCUMULATE

AL IN

CMP 87
Target 103
Upside 18%
Rating BUY

	FY18	FY19	FY20E	FY21E
Roe%	21.8%	23.8%	22.5%	20.5%
Roce%	28.8%	29.1%	30.6%	28.1%
P/E	30.2	13.5	12.1	12.0
P/B	6.6	3.2	2.7	2.5
EV/Ebdita	20.5	12.1	7.2	7.1

	FY18	FY19	FY20E	FY21E	Q1FY19	Q4FY19	Q1FY20E
Growth YoY							
MHCV	16%	9%	3%	-3%	54%	-1%	-13%
LCV	37%	25%	14%	10%	33%	8%	12%
Total Volumes	21%	13%	6%	1%	48%	1%	-6%
<i>Financials</i>							
Sales	26,248	29,055	31,495	34,406	6,250	8,846	5,927
<i>Sales Gr</i>	31%	11%	8%	9%	47%	1%	-5%
Ebdita	2,739	3,136	3,560	3,622	648	985	590
<i>Ebdita Gr</i>	24%	14%	14%	2%	112%	-5%	-9%
Net Profits	1,563	1,983	2,106	2,128	370	653	313
<i>Profit Gr%</i>	28%	27%	6%	1%	233%	-2%	-15%
Ebdita Margin%	10.4%	10.8%	11.3%	10.5%	10.4%	11.1%	10.0%
Net Profit Margin%	6.0%	6.8%	6.7%	6.2%	5.9%	7.4%	5.3%

Std/Fig in Rs Cr

- ❑ Revenue is expected to decline by 5%YoY with volume to degrow by 6%YoY.
- ❑ Slowdown in infrastructure & mining activity and higher inventory level can impact growth in 1HFY20 while growth in 2HFY20 will be largely pulled by pre-buying.
- ❑ The dealer inventory level has reached to 45-50 days.
- ❑ The company is focusing on expanding its exports market. It has recently launched products in Middle East and further planning to enter into Russian markets (with LHD products).
- ❑ EBITDA margin to decline by 100bps on sequential basis to 10% due to new launches & promotional activity in exports market coupled with higher discounting level and weaker operating leverage.
- ❑ Capex guidance for FY20 is Rs 1000-1500 crores which will be invested towards various projects, subsidiaries, BS-VI capacity enhancement and electric vehicles.

Key Trackable this Quarter

- ❑ Dealer Inventory: currently at 45-50 days
- ❑ MHCV demand scenario and discounting level

We value standalone business at 13x FY21E EPS and Rs.9 per share for HLFL. BUY

BJAUT IN

CMP 2910
Target 3449
Upside 19%
Rating BUY

	FY18	FY19	FY20E	FY21E
Roe%	20.7%	21.2%	18.7%	19.0%
Roce%	21.7%	20.2%	19.4%	19.8%
P/E	18.9	17.1	17.5	15.2
P/B	3.9	3.6	3.3	2.9
EV/Ebdita	16.5	16.8	15.9	13.9

	FY18	FY19	FY20E	FY21E	Q1FY19	Q4FY19	Q1FY20E
Growth YoY							
2 wheelers	5%	26%	7%	9%	33%	17%	5%
3 wheelers	43%	23%	-3%	5%	74%	1%	-16%
Total Volumes	9%	25%	5%	8%	38%	25%	2%
Average Realisation	6%	-4%	-1%	4%	-1%	-5%	-4%
<i>Financials</i>							
Sales	25,165	30,250	31,632	35,406	7,419	7,395	7,272
Sales Gr	16%	20%	5%	12%	36%	9%	-2%
Other Income	1,212	1,555	1,404	1,620	310	433	351
Ebdita	4,782	4,980	5,283	6,058	1,280	1,162	1,161
Ebdita Gr	8%	4%	6%	15%	37%	-12%	-9%
Net Profits	4,219	4,928	4,820	5,544	1,042	1,408	1,095
Profit Gr%	3%	17%	-2%	15%	25%	20%	5%
Ebdita Margin%	19.0%	16.5%	16.7%	17.1%	17.3%	15.7%	16.0%
Net Profit Margin%	16.8%	16.3%	15.2%	15.7%	14.0%	19.0%	15.1%

Conso/Fig in Rs Cr

- ❑ Revenue is expected to decline by 2%YoY largely driven by 2%YoY volume growth and 4%YoY decline in realizations.
- ❑ 2Ws volumes are expected to grow at 5%YoY driven by higher sales of Platina 110, CT100 and Pulsar brands in domestic markets. Recovery in traditional markets (Nigeria) and entry into the new markets (Cambodia, Iraq, Myanmar etc) are driving growth for exports.
- ❑ 3Ws sales is expected to decline by 16%YoY due to higher base effect in domestic market and regulatory changes & political uncertainty in key export markets.
- ❑ EBITDA margin is expected to improve by 30bps QoQ at 16% because of benefit of declining commodity prices and improving 2W product mix.
- ❑ The company will be launching refreshed versions on existing models over next 6-9 months in both entry and 125 cc segments. There will also be launch of an electric vehicle in FY20.

Key Trackable this Quarter

- ❑ Management commentary on 3 wheeler demand (domestic as well as in export markets)

We value the stock at 18x FY21e EPS. BUY

BIL IN

CMP 766
Target 831
Upside 8%
Rating NEUTRAL

	FY18	FY19	FY20E	FY21E
Roe%	18%	17%	15%	15%
Roce%	19%	21%	19%	19%
P/E	28.8	19.5	18.5	16.6
P/B	5.2	3.2	2.8	2.5
EV/Ebdita	19.2	11.6	10.9	9.7

	FY18	FY19	FY20E	FY21E	Q1FY19	Q4FY19	Q1FY20E
Rubber (RSS-4)	181	156	172	172	170	166	178
Crude	56	66	62	62	71	57	66
Growth YoY							
Volumes (MT)	199,213	211,261	220,052	233,255	56,754	55,388	57,322
Growth YoY	16%	6%	4%	6%	23%	3%	1%
Average Realization	2%	11%	0%	2%	5%	-5%	2%
<i>Financials</i>							
Sales	4,464	5,245	5,468	5,936	1,362	1,351	1,405
Sales Gr	18%	17%	4%	9%	35%	10%	3%
Ebdita	1,107	1,311	1,370	1,511	358	320	351
Ebdita Gr	-2%	18%	4%	10%	65%	8%	-2%
Net Profits	739	785	813	891	230	185	209
Profit Gr%	3%	6%	4%	10%	50%	-5%	-9%
Ebdita Margin%	24.8%	25.0%	25.0%	25.5%	26.2%	23.7%	25.0%
Net Profit Margin%	16.6%	15.0%	14.9%	15.0%	16.9%	13.7%	14.9%

Std/Fig in Rs Cr

❑ Revenue growth of 3%YoY will be driven by 1%YoY volume growth and 2%YoY realization growth. We expect volume growth of 4%YoY which is in-line with management's guidance of 3-5%YoY.

❑ EBITDA margin is expected to improve by 130bps QoQ in Q1FY20 largely driven by reduction in rubber and crude prices in Q3FY19. The management expects EBITDA Margins to be in the range of 25-28% going ahead.

❑ Currently, the company's share in the off-road tyre market in India is 7-8 % and it is looking at increasing the share to 15 % in the next three to four years.

❑ The company has started the trial production at Carbon Black plant and it will add 50-60bps in margins in 2020 and around 100bps till 2021 based on its full capacity utilization level.

Key Trackable this Quarter

- ❑ Demand scenario in European agri market (52% of revenues)
- ❑ Management commentary on margins

We value the stock at 18x FY21E EPS. NEUTRAL

CEAT IN

CMP **927**
Target **1000**
Upside **8%**
Rating **NEUTRAL**

	FY18	FY19	FY20E	FY21E
Roe%	9%	9%	9%	8%
Roce%	15%	11%	10%	10%
P/E	23.0	17.0	14.9	13.9
P/B	2.1	1.5	1.3	1.2
EV/Ebdita	9.3	8.5	7.8	7.3

	FY18	FY19	FY20E	FY21E	Q1FY19	Q4FY19	Q1FY20E
Rubber (RSS-4)	130	126	128	128	123	126	132
Crude	56	64	63	63	70	57	66
Growth YoY							
Volumes (MT)	304,802	327,769	342,933	367,844	84,972	81,455	84,122
Growth YoY	3%	8%	5%	7%	18%	-1%	-1%
Average Realization	5%	4%	2%	2%	-1%	6%	4%
<i>Financials</i>							
Sales	6,231	6,985	7,466	8,197	1,706	1,760	1,749
Sales Gr	8%	12%	7%	10%	17%	5%	2%
Ebdita	615	643	687	772	176	162	157
Ebdita Gr	-6%	5%	7%	12%	222%	-18%	-10%
Net Profits	233	251	252	269	71	64	54
Profit Gr%	-35%	8%	1%	7%	5077%	-16%	-25%
Ebdita Margin%	9.9%	9.2%	9.2%	9.4%	10.3%	9.2%	9.0%
Net Profit Margin%	3.7%	3.6%	3.4%	3.3%	4.2%	3.7%	3.1%

Conso/Fig in Rs Cr

□ Revenue growth of 2.5%YoY in 1QFY20 is to be driven by 4% YoY realization growth while volumes are expected to decline by 1% YoY due to slowdown in the demand scenario both in OEM as well as aftermarket segment.

□ EBITDA margin are expected to decline by 22bps QoQ due to increased advertisement and marketing expenses and new product launches. However, the management expects further commodity price benefit to come in 1QFY20.

□ The company has been focusing towards development of premium products in passenger car segment as industry is moving towards 14-inch tyres. While, some of the OEMs (Hyundai Venue) have introduced products with 16-inch tyres.

□ PCR and OTR plant will become operational in 2QFY20 and 4QFY20 respectively. The management expects to increase its market share in the PCR from 8-10% to 16-22% in next 3 years and OTR plant is expected to reach at full utilization in 1.5 years.

□ Total capex of Rs.2500-3000 crores can be spread over 3-3.5 years from earlier guidance of 2-2.5 years.

Key Trackable this Quarter

- Replacement demand scenario
- Management's strategy regarding competitive intensity
- Management's commentary on margins

We value the stock at 15x FY21E EPS. NEUTRAL

EICHER IN

CMP 19598
Target 21286
Upside 9%
Rating NEUTRAL

	FY18	FY19	FY20E	FY21E
Roe%	27.9%	24.7%	21.3%	19.7%
Roce%	36.8%	29.2%	25.1%	22.4%
P/E	39.4	25.2	23.4	20.3
P/B	11.0	6.2	5.0	4.0
EV/Ebdita	27.5	19.1	17.6	15.8

	FY18	FY19	FY20E	FY21E	Q1FY19	Q4FY19	Q1FY20E
Growth YoY							
Royal Enfield	23%	1%	-1%	4%	22%	-14%	-19%
Average Realisation	4%	9%	12%	5%	4%	14%	15%
VECV	14%	9%	4%	3%	40%	-9%	-19%
<i>Financials</i>							
Sales	8,965	9,797	10,974	12,060	2,548	2,500	2,443
Sales Gr	27%	9%	12%	10%	27%	-1%	-4%
Ebdita	2,808	2,903	3,037	3,390	810	685	679
Ebdita Gr	29%	3%	5%	12%	30%	-14%	-16%
Net Profits	1,960	2,203	2,283	2,637	576	545	519
Profit Gr%	18%	12%	4%	16%	25%	18%	-10%
Ebdita Margin%	31.3%	29.6%	27.7%	28.1%	31.8%	27.4%	27.8%
Net Profit Margin%	21.9%	22.5%	20.8%	21.9%	22.6%	21.8%	21.2%

Conso/Fig in Rs Cr

❑ Revenue growth is expected to decline by 4% YoY due to 19%YoY volume de-growth in Q1FY20. Realization may increase by 15%YoY because of increasing sales of 650 twins and ABS implementation.

❑ The management expects 950000 units of production (+15%YoY) in FY20 while considering the demand scenario we expect growth to be flat YoY in FY20.

❑ The company crossed 2000 units of production of twins model in April 2019 and it is expected to 5000 units by July 2019. It has a waiting period of 4 months.

❑ EBITDA margin is expected to improve by 40bps QoQ largely because of decline in commodity prices and reduction in advertising and promotional expenses compared to last quarter. The management expect margins to be in the range of 27%-30% going ahead.

❑ Capex for FY20 is Rs. 700 crores to be utilized in Phase-2 of the Vallam Vadagal plant (SOP 2HFY20) and development of new platforms and products.

Key Trackable this Quarter

- ❑ Demand outlook in terms of increasing competition and slowdown in tier-1/2 cities
- ❑ Management commentary on margin expansion and capacity addition plans

We value the stock at 22x FY21E EPS. NEUTRAL

ESC IN

CMP **570**
Target **667**
Upside **17%**
Rating **BUY**

	FY18	FY19	FY20E	FY21E
Roe%	16%	18%	16%	15%
Roce%	22%	24%	22%	20%
P/E	31.1	16.6	14.1	12.8
P/B	4.9	3.0	2.2	1.9
EV/Ebdita	19.5	11.0	9.3	8.8

	FY18	FY19	FY20E	FY21E	Q1FY19	Q4FY19	Q1FY20E
Agri Machinery Vol.	80,417	96,412	98,594	103,794	24,494	25,136	21,051
Growth YoY	26%	20%	2%	5%	39%	7%	-14%
ECE Volume	4,486	5,544	6,178	6,887	1345	1455	1372
Growth YoY	35%	24%	11%	11%	52%	-6%	2%
Segment Revenue							
Agri Machinery	3958	4744	4863	5126	1177	1231	1036
ECE	780	1054	1254	1408	246	293	278
Railway Equip.	287	394	453	521	88	103	101
<i>Financials</i>							
Sales	5,059	6,262	6,640	7,129	1,511	1,632	1,415
Sales Gr	22%	24%	6%	7%	32%	14%	-6%
Ebdita	554	725	770	843	186	190	170
Ebdita Gr	79%	31%	6%	9%	90%	9%	-8%
Net Profits	347	477	497	546	120	121	105
Profit Gr%	166%	38%	4%	10%	91%	8%	-12%
Ebdita Margin%	10.9%	11.6%	11.6%	11.8%	12.3%	11.6%	12.0%
Net Profit Margin%	6.9%	7.6%	7.5%	7.7%	7.9%	7.4%	7.4%

*Yearly Consolidated and Quarterly Standalone

Fig in Rs Cr

❑ Revenue growth will be down by 6%YoY led by 14%YoY decline in tractor volumes. Agri machinery segment revenue growth is expected to decline by 12%YoY while Construction Equipment and Railways division may post a growth of 13% and 15%YoY in Q1FY20.

❑ Tractor industry is facing issues such as delay in harvesting and low water reservoir level and the management expects the traction to return from September 2019 with an overall growth forecast of 5-8%YoY for FY20.

❑ The growth in South and West regions will be slow due to lower reservoir level and subsidy based incentive slowdown.

❑ On the exports front, the company targets to achieve 4500-5000 units in FY20. (+45-50%YoY)

❑ Declining commodity prices and price hikes in construction equipment segment will take the margins to 12% level (+40bps QoQ). However, margins are expected to be at same level of 11%-12% going forward.

❑ By July the company expects to receive Rs.80-100 crores due from government side related to GST and this inflow will improve the working capital.

Key Trackable this Quarter

❑ Inventory Level (currently at 4-4.5 weeks)

❑ Construction Equipment segment margins

We value the stock at 15x FY21E EPS. BUY

GABR IN

CMP 112
Target 118
Upside 5%
Rating NEUTRAL

	FY18	FY19	FY20E	FY21E
Roe%	18%	16%	14%	14%
Roce%	25%	23%	20%	20%
P/E	22.3	21.0	17.0	15.2
P/B	4.0	3.4	2.4	2.2
EV/Ebdita	12.2	11.2	9.0	7.9

	FY18	FY19	FY20E	FY21E	Q1FY19	Q4FY19	Q1FY20E
Segment Revenue							
2W/3W	1,026	1,287	1,477	1,610	298	353	343
PV	568	497	431	456	139	90	83
CV	238	291	324	347	77	67	80
<i>Financials</i>							
Sales	1,833	2,076	2,232	2,414	515	510	506
Sales Gr	20%	13%	7%	8%	23%	3%	-2%
Ebdita	171	178	177	201	49	35	35
Ebdita Gr	19%	4%	0%	13%	22%	-26%	-28%
Net Profits	94	95	94	106	24	18	18
Profit Gr%	15%	1%	-1%	12%	31%	-32%	-27%
Ebdita Margin%	9.3%	8.6%	8.0%	8.3%	9.5%	6.8%	7.0%
Net Profit Margin%	5.1%	4.6%	4.2%	4.4%	4.7%	3.4%	3.5%

Std/Fig in Rs Cr

❑ Revenue is expected to decline by 2%YoY due to sharp reduction in passenger vehicle volumes in last 2 quarters. We expect overall 7%YoY growth based on recovery in the second half led by festive season, new launches and pre-buying on account of BS-VI.

❑ Management expects 2W, PV and CV segments to grow by 5-7%, 3-5% and 10% respectively in FY20.

❑ EBITDA margin is expected to improve by 20bps on sequential basis led by negotiation with OEMs as well as reduction in commodity prices. Margins are expected to improve going ahead in FY20 yet it's difficult to reach at a level of 10% in next 2-3 years.

❑ Capex planned by the management for FY20 is Rs. 85 crores, out of which around Rs. 45 crores will be spent in Sanand plant for Honda Activa (Front Forks) orders lined up.

❑ TVS, Honda, Yamaha, Maruti and Mahindra are the top 5 clients of the company within which the share of Gabriel stood at 65%, 25%, 60%, 28% and 50% respectively.

Key Trackable this Quarter

- ❑ Sanand Plant commissioning status (expected to start production by 3QFY20)
- ❑ Management strategy to increase PV share in overall business

We value the stock at 16x FY21E EPS. NEUTRAL

HMCL IN

CMP 2618
Target 2731
Upside 4%
Rating NEUTRAL

	FY18	FY19	FY20E	FY21E
Roe%	31.1%	26.4%	23.6%	22.8%
Roce%	39.2%	33.2%	31.4%	30.4%
P/E	19.4	15.0	15.3	14.4
P/B	6.0	4.0	3.6	3.3
EV/Ebdita	13.6	10.3	10.1	9.4

	FY18	FY19	FY20E	FY21E	Q1FY19	Q4FY19	Q1FY20E
Growth YoY							
2 Wheelers	14%	3%	-1%	4%	14%	-11%	-12%
Average Realisation	0%	1%	4%	2%	-3%	3%	7%
<i>Financials</i>							
Sales	32,458	33,971	35,051	37,113	8,810	7,885	8,240
Sales Gr	14%	5%	3%	6%	11%	-8%	-6%
Other Income	413	522	523	687	116	164	102
Ebdita	5,325	5,018	5,191	5,550	1,377	1,069	1,170
Ebdita Gr	16%	-6%	3%	7%	6%	-22%	-15%
Net Profits	3,722	3,466	3,415	3,637	909	730	751
Profit Gr%	5%	-7%	-1%	6%	-1%	-24%	-17%
Ebdita Margin%	16.4%	14.8%	14.8%	15.0%	15.6%	13.6%	14.2%
Net Profit Margin%	11.5%	10.2%	9.7%	9.8%	10.3%	9.3%	9.1%

*Yearly Consolidated and Quarterly Standalone

Fig in Rs Cr

❑ Revenue is expected to decline by 6%YoY due to 12%YoY contraction in volumes. However, realization may grow by 7%YoY because of price hikes related to ABS-CBS norms and improvement in product mix.

❑ The management expects 1HFY20 to remain flattish due to correction of inventories while 2HFY20 is expected to grow by 5-7% due to improving liquidity issues, good monsoon, Kharif output, festive seasons and pre-buying ahead of BS-VI implementation.

❑ Inventory level stands at 45-50 days and it is expected to improve by 5-10 days in 1QFY20.

❑ EBITDA margin is expected to improve by 60bps QoQ largely due to better product mix, price hikes and reduction in commodity prices. However the management expects margins to be in the range of 13-14% going forward.

❑ Capex guidance for FY20 is Rs.1500 crores which will include investments in Andhra plant and addition of BS-VI manufacturing lines.

Key Trackable this Quarter

- ❑ Dealer Inventory level: 45-50 days
- ❑ Management commentary on Scooter demand scenario

We value the stock at 15x FY21E EPS. NEUTRAL

LUMX IN

CMP 1268
Target 1195
Upside -6%
Rating NEUTRAL

	FY18	FY19	FY20E	FY21E
Roe%	22%	29%	18%	20%
Roce%	29%	25%	28%	30%
P/E	32.2	12.1	16.5	12.7
P/B	7.0	3.5	2.9	2.6
EV/Ebdita	15.2	8.5	6.5	5.6

	FY18	FY19	FY20E	FY21E	Q1FY19	Q4FY19	Q1FY20E
Segment Revenue							
PV	1,127	1,243	1,357	1,548	323	290	290
CV	99	117	124	133	30	26	28
2-Wheelers	431	518	543	607	144	117	122
<i>Financials</i>							
Sales	1,650	1,851	2,024	2,287	496	433	441
Sales Gr	27%	12%	9%	13%	42%	-23%	-11%
Ebdita	134	153	182	213	41	31	33
Ebdita Gr	35%	14%	19%	17%	66%	-34%	-20%
Net Profits	63	107	72	93	17	12	9
Profit Gr%	40%	70%	-33%	30%	81%	-36%	-47%
Ebdita Margin%	8.1%	8.3%	9.0%	9.3%	8.2%	7.1%	7.4%
Net Profit Margin%	3.8%	5.8%	3.5%	4.1%	3.4%	2.8%	2.0%

Std/Fig in Rs Cr

❑ Revenue is expected to decline by 11%YoY due to sharp decline in passenger vehicle and commercial vehicle volumes during the quarter. However we expect overall 9%YoY growth for FY20 backed by increasing LED penetration.

❑ The management expects volume growth to be in-line as per SIAM guidance and 2W, 3W, CV and PV are expected to grow at 5%, 5-7%, 8-9% and 3-5% respectively in FY20.

❑ LED contributes 33% of revenue in FY19 and it's expected to go till 50% by 2021-2022.

❑ EBITDA margin is expected to improve by 30bps on sequential basis on the back of reduction in commodity prices, higher LED adoption in new models and improving localization. EBITDA margins are expected to be in the double digit in FY20 based on increase in localization.

❑ Capex guidance for FY20 is around Rs. 125-130 crores which includes RS. 75 crores for Bawal plant electronics business.

Key Trackable this Quarter

- ❑ New client addition in PV segment
- ❑ LED and Non LED mix
- ❑ Management commentary on localization

We value the stock at 12x FY21E EPS. NEUTRAL

MM IN

CMP 660
Target 759
Upside 15%
Rating BUY

	FY18	FY19	FY20E	FY21E
Roe%	14.4%	14.0%	12.3%	11.5%
Roce%	13.4%	13.2%	11.8%	11.0%
P/E	14.9	9.5	9.7	9.5
P/B	2.1	1.3	1.2	1.1
EV/Ebdita	10.5	6.8	6.3	6.0

	FY18	FY19	FY20E	FY21E	Q1FY19	Q4FY19	Q1FY20E
Volume Growth							
Passenger Vehicles	5%	2%	6%	4%	9%	7%	-2%
Commercial vehicles	20%	15%	4%	2%	23%	1%	-7%
3W	4%	22%	7%	8%	29%	13%	5%
Export	-24%	37%	1%	5%	101%	18%	-8%
Farm Equipment	21%	4%	0%	7%	19%	-14%	-16%
Total Volumes	13%	8%	3%	5%	20%	0%	-9%
Realization Growth	-1%	2%	5%	2%	-2%	6%	6%
Financials							
Sales	48,686	53,614	57,778	62,162	13,520	14,035	12,975
Sales Gr	11%	10%	8%	8%	17%	5%	-4%
Ebdita	6,224	6,640	7,176	7,601	1,872	1,646	1,535
Ebdita Gr	31%	7%	8%	6%	48%	-6%	-18%
Net Profits	4,356	4,796	4,642	4,726	1,221	849	909
Profit Gr%	10%	10%	-3%	2%	59%	-20%	-26%
Ebdita Margin%	12.8%	12.4%	12.4%	12.2%	13.8%	11.7%	11.8%
Net Profit Margin%	8.9%	8.9%	8.0%	7.6%	9.0%	6.0%	7.0%
Sales incl. MVML	47,792	52,848	56,128	59,979	13,358	13,808	12,722
Ebdita incl MVML	7,064	7,531	8,027	8,637	2,110	1,868	1,819
Net Profits incl MVML	4,639	5,402	4,674	4,895	1,258	969	1,040

Std/Fig in Rs Cr

❑ The company is expected to post 4%YoY decline in revenue due to 9%YoY decline in volumes. Realization on the other hand is expected to improve by 6%YoY.

❑ 1HFY20 to remain subdued due to high base effect last year but the demand may revive from 2HFY20 going forward. However, overall tractor industry growth is expected to be 5%YoY in FY20.

❑ The management expects PV and CV industry to grow at 3-5% and 10-12%YoY respectively.

❑ The company is expanding HCV and LCV portfolio in Right Hand Drive (RHD) markets and also expanding its PV segment with KUV and XUV300 in FY20.

❑ EBITDA margin is expected to improve by 15bps QoQ because of softness in commodity prices. However we expect margins to largely remain range bound between 12-12.5% in FY20.

❑ Capex guidance for next 3 years is Rs.18000 crores in which Rs.12000 crores will be used for capacity expansion& product development while Rs.6000 crores will be used for other investments.

Key Trackable this Quarter

❑ Farm Equipment segment margins (in Q4FY19 declined by 300bps QoQ)

❑ Channel Inventory (planned production cut for 5-13 days)

We value M&M+MVML at 12x FY21E EPS and subsidiaries at Rs.283 per share. BUY

MSIL IN

CMP 6510
Target 7531
Upside 16%
Rating BUY

	FY18	FY19	FY20E	FY21E
Roe%	18.5%	16.2%	14.3%	14.7%
Roce%	21.9%	16.9%	14.6%	15.0%
P/E	34.0	27.3	26.5	23.3
P/B	6.3	4.4	3.8	3.4
EV/Ebdita	22.2	18.9	18.1	16.4

	FY18	FY19	FY20E	FY21E	Q1FY19	Q4FY19	Q1FY20E
Capacity('000)	1900	1963	2213	2400	1900	1963	1963
Growth YoY							
Domestic	14%	6%	-1%	4%	26%	0%	-19%
Exports	2%	-14%	3%	5%	2%	-15%	6%
Total Volumes	13%	5%	-1%	4%	24%	-1%	-18%
Average Realisation	3%	3%	2%	2%	3%	2%	6%
Financials							
Sales	79,809	86,069	86,933	91,819	22,459	21,459	19,579
Sales Gr	17%	8%	1%	6%	28%	1%	-13%
Other Income	2,046	2,562	2,637	2,980	272	868	659
Ebdita	12,063	11,003	10,853	12,022	3,351	2,263	2,173
Ebdita Gr	16%	-9%	-1%	11%	44%	-25%	-35%
Net Profits	7,881	7,651	7,431	8,426	1,975	1,796	1,430
Profit Gr%	5%	-3%	-3%	13%	27%	-5%	-28%
Ebdita Margin%	15.1%	12.8%	12.5%	13.1%	14.9%	10.5%	11.1%
Net Profit Margin%	9.9%	8.9%	8.5%	9.2%	8.8%	8.4%	7.3%

Conso/Fig in Rs Cr

- ❑ Revenue is expected to decline by 13%YoY largely driven by 18%YoY contraction in volume growth. Realization will improve by 6%YoY on account of better product mix and price hikes.
- ❑ The PV industry is expected to grow by 3-5% in FY20 and the company is expected to grow better than the industry as per the management. However we expect flat growth for FY20.
- ❑ The exports are expected to remain subdued in FY20. Currency devaluation and import restrictions across in some of the key markets affected the exports sales.
- ❑ EBITDA margin is expected to improve by 60bps QoQ (-380bps YoY) while it will still remain under pressure due to fixed cost increase on Gujarat plant.
- ❑ The 2nd line of Gujarat plant has commenced production from January 2019 and it is currently producing Swift and Baleno models. The recent slowdown will further put pressure on overall profitability due to slow ramp up.
- ❑ Capex guidance for FY20 and FY21 is Rs 4500 crores.

Key Trackable this Quarter

- ❑ Inventory level
- ❑ Management strategy to gain market share in UV segment (increasing competition)
- ❑ Management commentary on margins

We value the stock at 27x FY21E EPS. BUY

MNDA IN

CMP 318
Target 365
Upside 15%
Rating BUY

	FY18	FY19	FY20E	FY21E
Roe%	24%	20%	19%	21%
Roce%	23%	21%	22%	25%
P/E	23.1	25.2	21.3	15.7
P/B	5.5	5.0	4.1	3.3
EV/Ebdita	14.5	11.8	9.6	7.8

	FY18	FY19	FY20E	FY21E	Q1FY19	Q4FY19	Q1FY20E
Segment Revenue							
Switches	1,533	2,243	2,252	2,428	586	517	510
Horns/Acoustics	683	738	788	863	200	189	202
Lighting	1,151	1,325	1,482	1,657	315	344	346
Seating			250	1,000			
Others	1,103	1,603	2,143	2,465	329	437	444
<i>Financials</i>							
Sales	4,471	5,908	6,915	8,413	1,430	1,486	1,502
<i>Sales Gr</i>	32%	32%	17%	22%	51%	8%	5%
Ebdita	534	725	871	1,067	170	185	186
<i>Ebdita Gr</i>	43%	36%	20%	23%	68%	9%	10%
Net Profits	331	339	391	531	85	85	76
<i>Profit Gr%</i>	79%	3%	15%	36%	64%	-39%	-11%
Ebdita Margin%	11.9%	12.3%	12.6%	12.7%	11.9%	12.5%	12.4%
Net Profit Margin%	7.4%	5.7%	5.6%	6.3%	5.9%	5.7%	5.0%

Conso/Fig in Rs Cr

❑ Revenue is expected to grow by 5%YoY largely driven by growth in alloy wheel business and lighting segment. Overall we expect 17%YoY growth for FY20 on the back of new product launches and pre-buying in 2HFY20.

❑ The management targets double digit revenue growth in FY20 based on increasing demand for premium segment cars leading to higher kit value per vehicle. 4 wheeler Alloy wheel business which contributes about 20-22% of revenue is expected to grow at 15-20% in FY20.

❑ EBITDA margin is expected to remain flat QoQ based on weaker operating leverage and unfavorable product mix. Going ahead the management expects EBITDA margins in the range of 12-12.5%.

❑ Harita seating will be contributing in revenue from 4QFY20 and is expected to generate revenue of about Rs. 1000 crores in FY21.

❑ Capex planned by the management for FY20 is Rs. 400 crores which includes investment in Alloy Wheel plant (Rs. 300-325 Crores), Controller business (Rs. 84 Crores).

Key Trackable this Quarter

- ❑ Management's take on passenger vehicle industry demand scenario (51% of revenue)
- ❑ Management's commentary on further margin improvement

We value the stock at 18x FY21E EPS. BUY

MSS IN

CMP 126
Target
Upside
Rating Under Review

	FY18	FY19	FY20E	FY21E
Roe%	23%	19%	17%	20%
Roce%	20%	17%	16%	20%
P/E	33.3	17.9	18.0	13.4
P/B	7.6	3.4	3.1	2.6
EV/Ebdita	15.6	7.9	7.3	5.7

	FY18	FY19	FY20E	FY21E	Q1FY19	Q4FY19	Q1FY20E
Copper(USD/MT)	6,449	6,347	6,213	6,213	6,766	6,226	6,228
Crude(USD/Barrel)	56	66	65	65	71	57	66
Segment Revenue							
MSSL Standalone	7,440	7,581	7,756	8,532	2,004	1,851	1,884
SMR	12,106	13,181	13,936	14,979	3,257	3,437	3,420
SMP	26,177	30,179	34,335	37,791	6,404	8,554	8,005
PKC	7,940	9,643	11,386	13,094	2,390	2,541	2,677
Others	3,956	4,508	4,925	5,418	1,112	1,184	1,168
<i>Financials</i>							
Sales	56,293	63,523	70,704	78,011	14,775	17,169	16,767
<i>Sales Gr</i>	33%	13%	11%	10%	13%	11%	13%
Ebdita	5,123	5,348	5,734	6,850	1,412	1,243	1,224
<i>Ebdita Gr</i>	20%	4%	7%	19%	19%	-17%	-13%
Net Profits	2,260	2,098	2,205	2,978	618	429	413
Adjusted Pat	1,597	1,613	1,764	2,382	443	410	330
<i>Profit Gr%</i>	22%	4%	2%	25%	7%	-1%	-16%
Ebdita Margin%	9.1%	8.4%	8.1%	8.8%	9.6%	7.2%	7.3%
Net Profit Margin%	4.0%	3.3%	3.1%	3.8%	4.2%	2.5%	2.5%
D/E	1.0	1.0	0.8	0.6			

Conso/Fig in Rs Cr

- ❑ Revenue is expected to grow by 13%YoY because of healthy double digit growth in SMP and PKC business based on order book lined up with the OEMs. The company has strong order book of over Rs. 1.47 lac crores in FY19 vs Rs.1.30 lac crores in FY18.
- ❑ The management expects European region will get further impacted by WLTP norm. However, the company businesses are expected to improve after 2-3 quarters.
- ❑ EBITDA margin is expected to remain flat on QoQ basis due to higher growth in low margin SMP business and commencement of new plants.
- ❑ Capex guidance for FY20 is Rs. 2000-2200 crores. SMRP BV capex would be Euro 200 million for FY20.
- ❑ The company has started supplying products for electric 2-Wheelers in Europe and US. The management is planning to do brownfield expansion going ahead for Electric vehicle development.

Key Trackable this Quarter

- ❑ Demand outlook in European market (WLTP norms affecting sales)
- ❑ Further debt reduction plans

The stock is currently under review

SKF IN

CMP **2022**
Target **2234**
Upside **10%**
Rating **ACCUMULATE**

	FY18	FY19	FY20E	FY21E
Roe%	16%	20%	18%	18%
Roce%	21%	26%	23%	22%
P/E	30.2	27.3	27.6	24.4
P/B	4.9	5.4	5.1	4.3
EV/Ebdita	18.9	17.6	18.5	16.3

	FY18	FY19	FY20E	FY21E	Q1FY19	Q4FY19	Q1FY20E
Segment Revenue							
Auto	1,141	1,275	1,351	1,458	321	322	321
Export	262	193	167	147	54	37	41
Industrial	1,348	1,568	1,745	1,958	380	389	406
<i>Financials</i>							
Sales	2,750	3,035	3,263	3,563	755	748	768
Sales Gr	5%	10%	8%	9%	13%	6%	2%
Other income	71	92	103	124	23	29	26
Ebdita	435	486	507	571	116	111	118
Ebdita Gr	29%	12%	4%	13%	24%	5%	2%
Net Profits	296	336	362	409	73	83	85
Profit Gr%	21%	14%	8%	13%	26%	15%	5%
Ebdita Margin%	15.8%	16.0%	15.5%	16.0%	15.4%	14.8%	15.4%
Net Profit Margin%	10.8%	11.1%	11.1%	11.5%	9.7%	11.1%	11.1%

Std/Fig in Rs Cr

❑ Revenue growth is expected to be 2% YoY driven by increase in branded bearings demand in the aftermarket along with new orders in railways and industrial segment.

❑ Hub-3 bearing capacity can be extended to 500000 units from current 350000 units and the bearing price could be somewhere Rs.1000. Hence the revenue potential is about Rs.35-50 crores.

❑ With the multi-axle trucks coming in the market will improve the content per vehicle as well as the technology.

❑ EBITDA margins are expected to improve by 60 bps QoQ due to decrease in aluminum and steel prices. Reduction in proportion of trading mix will further improve the margins.

❑ Capex guidance of Rs 100-150 crores in FY20 based on capacity utilization in both automotive and industrial segments and new product development.

❑ There are two growth drivers on railways freight side: one is existing freight market and replacement wagons, where the company has won orders in last few quarters. Second is DFC which is still a couple of years away but could add significantly to the railway business.

Key Trackable this Quarter

- ❑ Management commentary on auto replacement demand scenario
- ❑ Hub-3 plant production status

We value the stock at 27x FY21E EPS. ACCUMULATE

SUBR IN

CMP 235
Target 263
Upside 12%
Rating NEUTRAL

	FY18	FY19	FY20E	FY21E
Roe%	15%	11%	12%	13%
Roce%	21%	20%	19%	20%
P/E	28.7	24.8	16.2	13.4
P/B	4.3	2.8	2.0	1.8
EV/Ebdita	8.9	8.5	6.2	5.3

	FY18	FY19	FY20E	FY21E	Q1FY19	Q4FY19	Q1FY20E
Segment Revenue							
PV AC	1,761	1,945	1,989	2,083	479	468	439
Growth YoY	0	10%	2%	5%	27%	-6%	-8%
Non PV AC	152	179	276	373	53	50	57
Growth YoY	0	18%	54%	35%	42%	-9%	6%
Financials							
Sales	1,913	2,124	2,265	2,456	532	518	495
Sales Gr	23%	11%	7%	8%	28%	-6%	-7%
Ebdita	210	228	249	283	57	55	53
Ebdita Gr	26%	9%	9%	14%	29%	-14%	-7%
Net Profits	61	76	95	114	19	16	17
Profit Gr%	334%	26%	24%	21%	80%	-13%	-8%
Ebdita Margin%	11.0%	10.7%	11.0%	11.5%	10.7%	10.6%	10.7%
Net Profit Margin%	3.2%	3.6%	4.2%	4.5%	3.6%	3.1%	3.5%
D/E	0.8	0.3	0.2	0.1			

Conso/Fig in Rs Cr

❑ Revenue is expected to decline by 7%YoY due to sharp reduction in passenger vehicle volumes during Q1FY20. We expect 7%YoY revenue growth as against management's guidance of 10-11%YoY in FY20.

❑ Revenue mix for car and non-car stood at 91:9 and the management expects it to reach 80:20 in next 2-3 years.

❑ EBITDA margin is expected to increase by 10bps QoQ despite weaker operating leverage (lower volumes from Maruti). We expect overall 30bps YoY margin improvement in FY20 led by reduction in commodity prices and increasing localization.

❑ Capex planned by the management is Rs. 60-70 crores for FY20 which is used for maintenance of Plant and Machinery.

❑ SUBROS acquired Zamil Air Conditioner's assets for Home AC business is for Rs. 11.15 Crores out of which 50% amount is paid and remaining will be for paid after transfer of assets.

Key Trackable this Quarter

- ❑ Further slowdown in PV industry can adversely impact growth: 68% revenue comes from Maruti
- ❑ Management's strategy to improve Maruti: Non Maruti mix
- ❑ Localisation Trend: Import content stood at 30%

We value the stock at 15x FY21E EPS. NEUTRAL

SWE IN

CMP 1392
Target 1512
Upside 9%
Rating HOLD

	FY18	FY19	FY20E	FY21E
Roe%	35%	35%	33%	33%
Roce%	46%	47%	43%	43%
P/E	30.3	29.4	19.9	17.5
P/B	10.6	10.2	6.5	5.8
EV/Ebdita	19.9	18.4	12.4	11.4

	FY18	FY19	FY20E	FY21E	Q1FY19	Q4FY19	Q1FY20E
Engine Volumes	92,022	99,638	97,162	100,528	26,742	21,767	24,382
Growth YoY	12%	8%	-2%	3%	15%	0%	-9%
Average Realization	83,802	87,491	90,478	94,346	87,697	87,963	90,163
Growth YoY	4%	4%	3%	4%	5%	3%	3%
Financials							
Sales	771	872	879	948	235	191	220
<i>Sales Gr</i>	16%	13%	1%	8%	8%	3%	-6%
Ebdita	122	132	136	148	37	27	33
<i>Ebdita Gr</i>	16%	8%	3%	9%	13%	-4%	-9%
Net Profits	80	82	85	97	23	17	21
<i>Profit Gr%</i>	16%	3%	3%	14%	7%	-5%	-10%
Ebdita Margin%	15.8%	15.1%	15.4%	15.6%	15.6%	14.3%	15.2%
Net Profit Margin%	10.3%	9.4%	9.6%	10.2%	9.8%	8.7%	9.5%

Std/Fig in Rs Cr

❑ Revenue growth is expected to decline by 6% YoY in Q1FY20 due to declining volumes by 9%YoY led to lower than expected rainfall in key markets and end of subsidies in southern markets (10% of total industry sales) leading to slowdown in demand. However, realization is expected to grow by 3% YoY based on the increase in the mix of higher HP tractors and price hikes.

❑ The management of M&M expects the tractor industry to grow by 5% in FY20. The company has also cut production days between 5-13 days in plants in order to reduce inventory due to slowdown in demand in southern region and lower than expected rainfall.

❑ EBITDA margin is expected to improve by 88bps on sequential basis due to reduction in commodity prices. Further margins are expected to improve based on higher HP tractors which will add to the reduction in cost due to their high margin nature.

❑ The capacity is expected to increase from 120000 units to 150000 units by FY21 and it will be financed through internal accruals.

Key Trackable this Quarter

- ❑ Tractor industry demand outlook
- ❑ Management's strategy regarding pricing and margins

We value the stock at 19x FY21E EPS. HOLD

TVSL IN

CMP 436
Target 478
Upside 10%
Rating NEUTRAL

	FY18	FY19	FY20E	FY21E
Roe%	23%	20%	21%	22%
Roce%	26%	25%	27%	28%
P/E	43.0	31.3	22.8	18.7
P/B	9.9	6.3	4.7	4.1
EV/Ebdita	24.5	15.1	11.5	9.7

	FY18	FY19	FY20E	FY21E	Q1FY19	Q4FY19	Q1FY20E
Growth YoY							
Domestic	16%	9%	4%	7%	9%	-2%	-3%
Export	35%	33%	14%	10%	52%	22%	10%
Total Volumes	18%	13%	6%	7%	16%	2%	-1%
Average Realisation	6%	6%	6%	4%	6%	8%	10%
<i>Financials</i>							
Sales	15,175	18,210	20,424	22,705	4,168	4,384	4,549
<i>Sales Gr</i>	25%	20%	12%	11%	23%	10%	9%
Ebdita	1,175	1,433	1,643	1,937	321	308	341
<i>Ebdita Gr</i>	37%	22%	15%	18%	52%	10%	6%
Net Profits	663	670	801	976	147	134	152
<i>Profit Gr%</i>	19%	1%	20%	22%	13%	-19%	4%
Ebdita Margin%	7.7%	7.9%	8.0%	8.5%	7.7%	7.0%	7.5%
Net Profit Margin%	4.4%	3.7%	3.9%	4.3%	3.5%	3.1%	3.3%

Std/Fig in Rs Cr

□ Revenue is expected to grow at 9%YoY primarily driven by 10%YoY realization growth. The growth in realization will be attributed to higher sales of Apache and better growth in exports.

□ The management expects growth in 2QFY20 and 3QFY20 to improve because of improving liquidity issues and festive seasons and while 4QFY20 is expected to be strong due to BS-VI transition.

□ The export volumes continue to grow at 10%YoY. Going ahead the company is focusing on Indonesia market for better growth along with Asia and Africa markets.

□ EBITDA margin is expected to improve by 50bps on sequential basis largely because of reduction in commodity prices, better product mix and export contribution.

□ The company is making investments in electric vehicles and will launch new products in the current financial year.

□ Capex of Rs.650 crores towards new products, capacity expansion and BS-VI technology in FY20.

Key Trackable this Quarter

□ Investment in loss making subsidiaries (PT. Indonesia and Singapore)

□ Management commentary on margins

We value the stock at 21x FY21E standalone EPS + Rs.67 per share for TVS credit Services.

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