

India Equity Analytics

Results Preview Q3FY20 - Automobiles

Narnolia[®]

Analyst

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AMRJ IN

CMP 727
Target 779
Upside 7%
Rating HOLD

	FY18	FY19	FY20E	FY21E
Roe%	16%	14%	18%	17%
Roce%	22%	20%	21%	21%
P/E	28.9	22.1	18.0	16.8
P/B	4.6	3.2	3.3	2.9
EV/Ebdita	15.4	11.2	11.2	10.2

	FY18	FY19	FY20E	FY21E	3QFY19	2QFY20	3QFY20E
Capacity (mn units)							
4W	12.8	17.4	17.4	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	2,375	2,125	1,990	1,990	1,966	2,034	2,051
Segment Revenue							
Automotive Sales	3,878	4,487	4,481	4,895	1,102	1,117	1,072
Industrial Sales	2,181	2,306	2,512	2,636	593	601	657
<i>Financials</i>							
Sales	6,059	6,793	6,994	7,531	1,695	1,695	1,729
Sales Gr%	14%	12%	3%	8%	9%	-3%	2%
Ebdita	883	952	1,111	1,212	253	292	273
Ebdita Gr%	4%	8%	17%	9%	5%	24%	8%
Net Profits	471	483	689	739	131	219	170
Profit Gr%	-1%	3%	42%	7%	-3%	82%	30%
Ebdita Margin%	14.6%	14.0%	15.9%	16.1%	14.9%	17.2%	15.8%
Net Profit Margin%	7.8%	7.1%	9.8%	9.8%	7.7%	12.9%	9.8%

Std/Fig in Rs Cr

□ Revenue is expected to increase by 2%YoY in 3QFY20. The automotive OEM segment continues to be sluggish but there has been some improvement in volumes on sequential basis. However aftermarket segment is growing at low double digit. Telecom segment continue to be benign while UPS and railways are expected to drive growth for industrial segment.

□ The company has also seen traction on automotive exports which is growing at 15%YoY.

□ EBITDA margin is expected to decline by 144 bps QoQ because of weaker operating leverage and increase in lead prices.

□ The company has made Rs.20 crores investment on pilot project of lithium ion batteries and has already commenced production of telecom batteries, 2-3 wheeler battery packs.

□ The company has also plans to make investments into digital transformation projects and capacity additions going ahead.

□ The management has maintained its capex guidance of Rs.400 crores in FY20.

Key Trackable this Quarter

- Update on Clarior arrangement with AMARAJABAT.
- Management's strategy regarding lithium-ion batteries

We value the stock at 18x FY21E EPS. HOLD

AL IN

CMP 84
Target 72
Upside -14%
Rating NEUTRAL

	FY18	FY19	FY20E	FY21E
Roe%	22%	24%	9%	17%
Roce%	29%	29%	12%	21%
P/E	30.2	13.5	35.3	17.3
P/B	6.6	3.2	3.1	3.0
EV/Ebdita	20.5	12.1	14.4	9.2

	FY18	FY19	FY20E	FY21E	3QFY19	2QFY20	3QFY20E
Growth YoY							
MHCV	16%	9%	-35%	-2%	-17%	-56%	-39%
LCV	37%	25%	-4%	10%	28%	-11%	-6%
Total Volumes	21%	13%	-27%	3%	-6%	-44%	-29%
Realisation Growth	9%	-2%	-6%	11%	-6%	-7%	-9%
Financials							
Sales	26,248	29,055	19,992	22,805	6,325	3,930	4,119
Sales Gr%	31%	11%	-31%	14%	-12%	-48%	-35%
Ebdita	2,739	3,136	1,708	2,672	650	229	291
Ebdita Gr%	24%	14%	-46%	56%	-23%	-72%	-55%
Net Profits	1,563	1,983	699	1,429	381	39	81
Profit Gr%	28%	27%	-65%	104%	-21%	-93%	-79%
Ebdita Margin%	10.4%	10.8%	8.5%	11.7%	10.3%	5.8%	7.1%
Net Profit Margin%	6.0%	6.8%	3.5%	6.3%	6.0%	1.0%	2.0%

Std/Fig in Rs Cr

- ❑ Revenue is expected to decline by 35%YoY led by 29% YoY decline in volumes. Realizations are also expected to decline by 9%YoY led by heavy discounting across the CV industry.
- ❑ The management expects the demand to improve going forward led by good monsoon, improved freight rates and improving economic conditions.
- ❑ On the exports front, the management expects revival in Middle East, Saudi, UAE, Bangladesh and Africa markets going forward in H2FY20.
- ❑ The new launches from the modular business program will add to the domestic business going ahead from 1st April 2020 post BS-VI implementation. The company will make new launches in LCVs by the end of FY20. The Phoenix model is also expected to launch by the end of FY20.
- ❑ The company has taken production cuts for 2-12 days in December on account of tepid demand. The dealer's inventory level stood at 35-40 days for the industry.
- ❑ EBITDA margin to improve by 150bps on sequential basis to 7.1% led by decline in commodity prices and better operating leverage.
- ❑ Debt level has increased to Rs. 2586 crs in H1FY20 from Rs.398 crs in FY19.
- ❑ Capex guidance has been reiterated from Rs.2000 crs to Rs 1800 crs for FY20 which will be invested towards various projects, subsidiaries, BS-VI capacity enhancement and electric vehicles.

Key Trackable this Quarter

- ❑ Dealer Inventory Level (35-40 days for the industry)
- ❑ MHCV demand scenario and discounting level

we value the stock at 13x FY21E EPS and Rs.8 per share for HLFL. NEUTRAL

BJAUT IN

CMP 3119
Target 3699
Upside 19%
Rating BUY

	FY18	FY19	FY20E	FY21E
Roe%	21%	21%	20%	20%
Roce%	22%	20%	19%	19%
P/E	18.9	17.1	17.5	15.2
P/B	3.9	3.6	3.4	3.0
EV/Ebdita	16.5	16.8	17.4	14.7

	FY18	FY19	FY20E	FY21E	3QFY19	2QFY20	3QFY20E
Growth YoY							
2 wheelers	5%	26%	-2%	8%	32%	-13%	-5%
3 wheelers	43%	23%	-7%	5%	-1%	-11%	-3%
Total Volumes	9%	25%	-2%	8%	26%	-12%	-5%
Average Realisation	6%	-4%	6%	2%	-8%	9%	9%
Financials							
Sales	25,165	30,250	31,396	34,569	7,409	7,707	7,754
Sales Gr%	16%	20%	4%	10%	16%	-3%	5%
Other Income	1,212	1,555	1,429	1,672	470	393	349
Ebdita	4,782	4,980	5,170	6,099	1,155	1,279	1,292
Ebdita Gr%	8%	4%	4%	18%	-6%	-5%	12%
Net Profits	4,219	4,928	5,165	5,940	1,221	1,523	1,273
Profit Gr%	3%	17%	5%	15%	20%	21%	4%
Ebdita Margin%	19.0%	16.5%	16.5%	17.6%	15.6%	16.6%	16.7%
Net Profit Margin%	16.8%	16.3%	16.5%	17.2%	16.5%	19.8%	16.4%

Conso/Fig in Rs Cr

- ❑ Revenue is expected to improve by 5%YoY led by 9% YoY increase in realizations on account of price hikes and product upgrades.
- ❑ Overall two wheelers volumes declined by 5%YoY. The domestic 2W volumes declined by 16%YoY. However, sales are expected to bounce back from 4QFY20 both in domestic as well as international market.
- ❑ Overall 3W sales declined by 3% YoY due to seasonality effect and higher base of last year and slowdown in Latin America and Egypt markets. However exports 3W markets are expected to improve driven by higher sales in Africa, Bangladesh and Philippines market.
- ❑ EBITDA margin is expected to improve by 10 bps QoQ at 16.7% led by softening of commodity prices and improvement in product mix.
- ❑ The management also indicated that it has a robust pipeline of products for the next 18 months.
- ❑ The company tied up with Husquarna brand under KTM. It will further launch the product in 1QFY21. The company's tie up with Triumph is under process.
- ❑ The company has also invested about Rs 57 crore in bicycle and electric scooter rental startup Yulu. As a part of the deal, BAJAJ-AUTO will manufacture customised electric scooters.

Key Trackable this Quarter

- ❑ Export and domestic market demand outlook
- ❑ KTM business outlook

we value the stock at 18x FY21E EPS. BUY

BIL IN

CMP 979
Target 944
Upside -4%
Rating NEUTRAL

	FY18	FY19	FY20E	FY21E
Roe%	18%	17%	17%	15%
Roce%	19%	21%	14%	15%
P/E	28.8	19.5	21.3	20.7
P/B	5.2	3.2	3.6	3.2
EV/Ebdita	19.2	11.6	16.8	14.8

	FY18	FY19	FY20E	FY21E	3QFY19	2QFY20	3QFY20E
Rubber (RSS-4)	181	156	165	165	141	162	148
Crude	56	66	60	60	61	60	56
Volume Growth							
Volumes (MT)	1,99,213	2,11,261	1,94,296	2,05,954	46,780	45,169	46,312
Growth YoY	16%	6%	-8%	6%	-6%	-14%	-1%
Price Growth YoY	2%	11%	-4%	5%	15%	-6%	-7%
<i>Financials</i>							
Sales	4,464	5,245	4,620	5,129	1,206	1,071	1,109
Sales Gr%	18%	17%	-12%	11%	9%	-19%	-8%
Ebdita	1,107	1,311	1,119	1,265	301	267	280
Ebdita Gr%	-2%	18%	-15%	13%	4%	-20%	-7%
Net Profits	739	782	890	914	145	291	202
Profit Gr%	3%	6%	14%	3%	-24%	31%	40%
Ebdita Margin%	24.8%	25.0%	24.2%	24.7%	25.0%	25.0%	25.2%
Net Profit Margin%	16.6%	14.9%	19.3%	17.8%	12.0%	27.2%	18.2%

Std/Fig in Rs Cr

- Revenue is expected to decline by 8%YoY during the quarter. Volumes are expected to decline by 1% while realization are expected to decline by 7% YoY due to unfavourable currency fluctuation and passing on the benefit of reduced raw material prices.
- The management has plans to increase revenue contribution from India to 25% within next 2-3 years from around 20% currently.
- EBITDA margin expected to improve by 20 bps to 25.2% on sequential basis due to reduction in commodity prices and better margin carbon black plant. Branding expense spent will continue to remain at Rs. 40-50 crs in FY21.
- PAT is expected to grow by 40%YoY to Rs.202 crores due to higher other income over previous year. There was net forex loss of Rs.33 crores in 3QFY19.
- The first phase of carbon black plant got commissioned in 2QFY20 with the capacity of 60000 MT and second phase is expected to be commissioned in 1HFY21 with the capacity of 80000 MT.
- Capex guidance for FY20 and FY21 is expected to be Rs. 600-700 crs and Rs. 500-600 crs respectively which are to be spent on replacement of Waluj plant and capacity expansion at Bhuj plant.

Key Trackable this Quarter

- Demand scenario in Europe.
- Management's market share gain strategy in Indian market.

We value our stock at 20x FY21E EPS. NEUTRAL

CEAT IN

CMP 1033
Target 1106
Upside 7%
Rating NEUTRAL

	FY18	FY19	FY20E	FY21E
Roe%	9%	9%	9%	9%
Roce%	15%	11%	10%	10%
P/E	26.0	17.0	16.6	14.9
P/B	2.3	1.5	1.4	1.3
EV/Ebdita	10.5	8.5	8.0	7.6

	FY18	FY19	FY20E	FY21E	3QFY19	2QFY20	3QFY20E
Rubber (RSS-4)	130	126	135	135	124	146	125
Crude	56	63	58	58	54	57	56
Volumes (MT)	3,04,802	3,27,769	3,18,734	3,34,333	76,847	78,581	74,541
Volume Growth YoY	3%	8%	-3%	5%	2%	-7%	-3%
Price Growth YoY	5%	4%	3%	2%	10%	3%	3%
Financials							
Sales	6,231	6,985	6,969	7,460	1,730	1,692	1,730
Sales Gr%	8%	12%	0%	7%	12%	-4%	0%
Ebdita	615	643	697	777	143	170	176
Ebdita Gr%	-6%	5%	8%	11%	-26%	7%	24%
Net Profits	233	251	252	280	52	44	61
Profit Gr%	-35%	8%	0%	11%	-43%	-31%	16%
Ebdita Margin%	9.9%	9.2%	10.0%	10.4%	8.2%	10.1%	10.2%
Net Profit Margin%	3.7%	3.6%	3.6%	3.7%	3.0%	2.6%	3.5%

Conso/Fig in Rs Cr

- ❑ Revenue is expected to remain flat during the quarter. Volumes are expected to decline by 3% YoY. However realization is expected to improve by 3%YoY on account of price hikes growth in replacement market and exports.
- ❑ EBITDA margin expected to improve marginally on a sequential basis due to increase in domestic rubber prices in 2QFY20 and slow down in auto volumes.
- ❑ The company launched new Gripp XL and Zoom X3 tubeless tyre range for motorcycles in December. The new series of tyres cater to bikes above 150cc like the Pulsar 220/180/160, Avenger, Apache, Royal Enfield etc.
- ❑ The market share of OEMs in the PV segment is expected to expand by around 5% to around 13 from 8% within a year based on the current addition in the capacity in Chennai in 4QFY20.
- ❑ The management expects to bring the current PCR and PCB mix of 60:40 to 50:50 going ahead with the capacity ramping up and demand for radial tyre.
- ❑ Management expects project capex to be in the range of Rs. 1000-1200 crores for standalone business and Rs. 100-150crores for speciality business in FY20 going ahead.

Key Trackable this Quarter

- ❑ Strategy regarding increased competitive intensity in PV space.
- ❑ Management commentary on margins.

We value the stock at 16x FY21E EPS. NEUTRAL

EICHER IN

CMP 21611
Target 21830
Upside 1%
Rating NEUTRAL

	FY18	FY19	FY20E	FY21E
Roe%	28%	25%	19%	18%
Roce%	37%	29%	20%	19%
P/E	39.4	25.2	28.8	24.7
P/B	11.0	6.2	5.6	4.6
EV/Ebdita	27.5	19.1	24.3	20.8

	FY18	FY19	FY20E	FY21E	3QFY19	2QFY20	3QFY20E
Growth YoY							
Royal Enfield	23%	1%	-13%	5%	-6%	-21%	-6%
Average Realisation	4%	9%	11%	6%	10%	15%	10%
VECV	14%	8%	-19%	3%	2%	-39%	-25%
Financials							
Sales	8,965	9,797	9,496	10,570	2,341	2,192	2,425
Sales Gr%	27%	9%	-3%	11%	3%	-9%	4%
Ebdita	2,808	2,903	2,421	2,832	680	541	609
Ebdita Gr%	29%	3%	-17%	17%	-4%	-26%	-10%
Net Profits	1,960	2,203	2,042	2,380	533	573	491
Profit Gr%	18%	12%	-7%	17%	2%	1%	-8%
Ebdita Margin%	31.3%	29.6%	25.5%	26.8%	29.0%	24.7%	25.1%
Net Profit Margin%	21.9%	22.5%	21.5%	22.5%	22.8%	26.1%	20.3%

Conso/Fig in Rs Cr

□ Revenue growth is expected to increase by 4% YoY during the quarter. Overall volumes have declined by 6% YoY. However realization may improve by 10%YoY in 3QFY20.

□ On the exports front, the company is looking at expanding manufacturing and dealership footprint across the world with a big focus on Southeast Asia and Latin America. However, exports market may be affected going ahead in 4QFY20 led by seasonality impact.

□ On the VECV side, the volumes are expected to decline by 25% YoY due to weak demand sentiments. However, the management expects more positive steps in the next 2-3 months from the government like infrastructure development, incentive based scrappage policy etc.

□ The company is seeking to increase its market share of BS-VI heavy truck segment on VECV side where it holds 5% market share currently. The company will continue to produce BS-IV trucks till February 2020.

□ EBITDA margin is expected to improve by 40bps QoQ on account of softening commodity prices. However, VECV margins are expected to remain impacted led by lower sales.

□ The management is also planning to launch one new product, including variants, every quarter for the coming 3-4years.

□ The company is focusing on making small format retail studio stores and has further planned to open up 200-300 more studio format stores by the end of FY20.

□ Capex for FY20 stands at Rs.700 crs to be spent on new product development.

Key Trackable this Quarter

- Management strategy regarding entering in tier-1/2 cities
- Management commentary on CV inventory level

We value our stock at 25x FY21E EPS. NEUTRAL

ESC IN

CMP 619
Target 698
Upside 13%
Rating ACCUMULATE

	FY18	FY19	FY20E	FY21E
Roe%	16%	18%	17%	18%
Roce%	22%	24%	20%	22%
P/E	31.3	16.3	16.3	12.7
P/B	4.9	3.0	2.8	2.3
EV/Ebdita	19.5	11.0	12.1	9.5

	FY18	FY19	FY20E	FY21E	3QFY19	2QFY20	3QFY20E
Agri Machinery Vol.	80,417	96,412	92,554	98,407	25,743	19,750	25,109
Growth YoY	26%	20%	-4%	6%	36%	-6%	-2%
ECE Volume	4,486	5,544	4,454	5,063	1413	945	1060
Growth YoY	35%	24%	-20%	14%	30%	-29%	-25%
Segment Revenue							
Agri Machinery	3958	4744	4710	5047	1293	996	1266
ECE	780	1054	938	1107	266	201	227
Railway Equip.	287	394	495	585	97	127	121
<i>Financials</i>							
Sales	4,995	6,196	6,144	6,740	1,655	1,324	1,613
Sales Gr%	22%	24%	-1%	10%	37%	-5%	-3%
Ebdita	557	733	642	840	200	129	168
Ebdita Gr%	72%	32%	-12%	31%	38%	-18%	-16%
Net Profits	345	484	464	604	140	105	119
Profit Gr%	115%	40%	-4%	30%	52%	2%	-15%
Ebdita Margin%	11.2%	11.8%	10.5%	12.5%	12.1%	9.7%	10.4%
Net Profit Margin%	6.9%	7.8%	7.5%	9.0%	8.5%	7.9%	7.4%

*Yearly Consolidated and Quarterly Standalone

Fig in Rs Cr

❑ Revenue is expected to decline by 3%YoY led by 2%YoY volume degrowth in Agri Machinery. The management expects the tractor industry to decline by 7-8% in FY20.

❑ H2FY20 is expected to grow led by festive season demand, Rabi sowing, higher subsidy sales from Telangana, Assam, Maharashtra and Gujarat going ahead. Tractor exports growth guidance is expected to be at 35-40% for FY21.

❑ Dealer inventory level stands at less than 4 weeks.

❑ On the construction equipment side, the management expects no recovery for next 3-4 months and expects to end up the year with high double digit degrowth.

❑ On the railways business, the overall revenue contribution is expected to increase to 10-12% from the current 6-7% by FY23.

❑ Margins are expected to improve by 70 bps QoQ to 10.4% led by declining commodity prices and higher agri machinery and railways mix.

❑ Tax rate is expected to be in the range of 23-24% for FY20 and 25% going ahead from FY21.

Key Trackable this Quarter

❑ Management' strategy to gain market share in weak states.

❑ Construction Equipment segment margins

We value our stock at 14x FY21E EPS. ACCUMULATE

GABR IN

CMP 130
Target 112
Upside -14%
Rating NEUTRAL

	FY18	FY19	FY20E	FY21E
Roe%	18%	16%	13%	14%
Roce%	25%	23%	15%	17%
P/E	22.3	21.0	22.8	18.6
P/B	4.0	3.4	2.9	2.6
EV/Ebdita	12.2	11.2	12.8	10.8

	FY18	FY19	FY20E	FY21E	3QFY19	2QFY20	3QFY20E
Segment Revenue							
2W/3W	1,026	1,287	1,388	1,519	311	333	336
PV	568	497	360	388	128	86	89
CV	238	291	233	248	71	55	54
<i>Financials</i>							
Sales	1,833	2,076	1,981	2,155	510	473	479
Sales Gr%	20%	13%	-5%	9%	14%	-13%	-6%
Ebdita	171	178	145	171	43	31	34
Ebdita Gr%	19%	4%	-18%	18%	6%	-39%	-22%
Net Profits	94	95	82	101	22	18	19
Profit Gr%	15%	1%	-14%	23%	2%	-36%	-16%
Ebdita Margin%	9.3%	8.6%	7.3%	7.9%	8.4%	6.6%	7.0%
Net Profit Margin%	5.1%	4.6%	4.1%	4.7%	4.3%	3.9%	3.9%

Std/Fig in Rs Cr

- Revenue is expected to decline by 6%YoY largely due to 30% and 25% YoY decline in passenger vehicle and CV segment respectively. However 2 wheeler segment is expected to post 8%YoY growth.
- The management expects no major revival within the industry till BS-VI implementation.
- Exports contribution reduced to 2% (4% in FY19) of the total revenue due to Columbia where the certain models were discontinued and the supply of new volumes will be there from FY21.
- EBITDA margin is expected to improve by 40bps QoQ to 7.0% due to softening of commodity prices.
- The Sanand plant is completely functional and ready for production and is expected to get commissioned by 4QFY20.
- Capex for FY20 is expected to be around Rs. 70 crs which is to be used for capacity expansion and new product development.

Key Trackable this Quarter

- Update on 3 wheeler EV from Bajaj Auto.
- Management strategy to achieve double digit margins

We value our stock at 16x FY21E EPS. NEUTRAL

HMCL IN

CMP 2429
Target 2569
Upside 6%
Rating NEUTRAL

	FY18	FY19	FY20E	FY21E
Roe%	31%	26%	27%	23%
Roce%	39%	33%	24%	25%
P/E	19.4	15.0	12.5	13.3
P/B	6.0	4.0	3.3	3.0
EV/Ebdita	13.6	10.3	11.0	9.8

	FY18	FY19	FY20E	FY21E	3QFY19	2QFY20	3QFY20E
Growth YoY							
2 Wheelers	14%	3%	-13%	4%	5%	-21%	-14%
Average Realisation	0%	1%	3%	4%	2%	5%	3%
<i>Financials</i>							
Sales	32,458	33,971	30,359	32,906	7,865	7,571	6,966
Sales Gr%	14%	5%	-11%	8%	8%	-17%	-11%
Other Income	413	522	523	687	188	208	136
Ebdita	5,325	5,018	4,401	4,895	1,105	1,101	996
Ebdita Gr%	16%	-6%	-12%	11%	-5%	-20%	-10%
Net Profits	3,722	3,466	3,887	3,653	769	875	789
Profit Gr%	5%	-7%	12%	-6%	-5%	-10%	3%
Ebdita Margin%	16.4%	14.8%	14.5%	14.9%	14.0%	14.5%	14.3%
Net Profit Margin%	11.5%	10.2%	12.8%	11.1%	9.8%	11.6%	11.3%

*Yearly Consolidated and Quarterly Standalone

Fig in Rs Cr

□ Revenue is expected to decline by 11%YoY led by 14%YoY contraction in volumes. However, realization is expected to grow by 3%YoY during the quarter. The company has taken a price hike in January by upto Rs.2000 across its range of two-wheelers.

□ The management expects to see good growth from North, East and Central India during the festive season. The company is also focusing on exports market like Africa, Latin America and Central America in order to increase its market share.

□ The management expects that the monsoon will lead to increase in reservoir level and improve Rabi crop sowing which will further lead to improvement in rural sentiment going forward post November.

□ The company will launch market launch of BS-VI range motorcycles soon after the festive season over the next few months. It also has more premium products in the pipeline to be introduced going ahead.

□ EBITDA margin is expected to decline by 20 bps QoQ to 14.3% due to weaker operating leverage despite softening of commodity prices. The company has provided higher discounts in order to improve sales during the festive season.

Key Trackable this Quarter

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

We value our stock at 14x FY21E EPS. NEUTRAL

LUMX IN

CMP 1295
Target 1202
Upside -7%
Rating NEUTRAL

	FY18	FY19	FY20E	FY21E
Roe%	22%	29%	16%	17%
Roce%	29%	25%	25%	25%
P/E	32.2	12.1	19.1	16.2
P/B	7.0	3.5	3.1	2.8
EV/Ebdita	15.2	8.5	7.4	6.7

	FY18	FY19	FY20E	FY21E	3QFY19	2QFY20	3QFY20E
Segment Revenue							
PV	1,127	1,243	1,117	1,228	289	283	277
CV	99	117	110	117	30	30	28
2-Wheelers	431	518	460	494	112	116	106
<i>Financials</i>							
Sales	1,650	1,851	1,687	1,839	431	429	411
Sales Gr	27%	12%	-9%	9%	16%	-17%	-5%
Ebdita	134	153	165	181	41	43	41
Ebdita Gr	35%	14%	8%	10%	26%	5%	-2%
Net Profits	63	107	63	75	51	19	14
Adjusted Net Profit	63	71	63	75	14	19	14
Profit Gr%	40%	13%	-11%	18%	-17%	-31%	-1%
Ebdita Margin%	8.1%	8.3%	9.8%	9.8%	9.6%	9.9%	9.9%
Net Profit Margin%	3.8%	5.8%	3.8%	4.1%	11.8%	4.4%	3.5%

Std/Fig in Rs Cr

- ❑ Revenue is expected to decline by 5%YoY due to decline in PV and CV volumes in 3QFY20. However the management expects a de-growth of 9% for FY20.
- ❑ The management expects that there won't be much impact of pre-buy going ahead but they also expects to benefit from the new model launches by OEMs.
- ❑ The management has currently added Maruti Suzuki (S-Presso and XL-6) under the PV segment. It has also added TVS Motors (N-Torq), HMTI (Activa 125 cc) and Heromotocorp (I Smart BS VI Motorcycle) and Sonalika under the tractor segment as its customers.
- ❑ The LED import content is expected reduce to 30% in next 2-3 years. Currently it is at 55-60%.
- ❑ EBITDA margin is expected to remain flat QoQ to 9.9% despite softening of commodity prices. However, the management expects margins to reach at 12-13% over next 3-5 years.
- ❑ The company has done partnership with Stanley Electric to manufacture LEDs and it is expected to be commissioned from 4QFY20.
- ❑ Capex guidance for FY20 is Rs. 135 crs out of which Rs. 75 crs will be spent on investments in Stanley Electric.

Key Trackable this Quarter

- ❑ New client addition in PV segment
- ❑ Management commentary on localization

We value the stock at 15x FY21E EPS. NEUTRAL

MM IN

CMP 540
Target 656
Upside 22%
Rating BUY

	FY18	FY19	FY20E	FY21E
Roe%	14%	14%	15%	11%
Roce%	13%	13%	14%	11%
P/E	14.9	9.5	5.7	7.0
P/B	2.1	1.3	0.8	0.8
EV/Ebdita	10.5	6.8	5.1	4.6

	FY18	FY19	FY20E	FY21E	3QFY19	2QFY20	3QFY20E
Volume Growth							
Passenger Vehicles	5%	2%	-12%	3%	1%	-27%	-12%
Commercial vehicles	20%	15%	-10%	1%	16%	-21%	-6%
3W	4%	22%	4%	8%	20%	-1%	10%
Export	-24%	37%	-16%	5%	36%	-16%	-23%
Farm Equipment	21%	4%	-10%	3%	11%	-8%	-7%
Total Growth	13%	8%	-7%	7%	11%	-16%	-7%
Realization Growth YoY	-1%	2%	3%	4%	2%	2%	5%
Financials							
Sales	48,686	53,614	50,591	54,774	13,070	11,076	12,704
Sales Gr	11%	10%	-6%	8%	13%	-15%	-3%
Ebdita	6,224	6,640	6,516	7,140	1,517	1,409	1,654
Ebdita Gr	31%	7%	-2%	10%	1%	-12%	9%
Net Profits	4,356	4,796	5,702	4,639	1,077	1,231	1,013
Adjusted Net Profit	3,922	4,826	4,335	4,639	1,157	1,231	1,013
Profit Gr%	15%	23%	-10%	7%	39%	-19%	-12%
Ebdita Margin%	12.8%	12.4%	12.9%	13.0%	11.6%	12.7%	13.0%
Net Profit Margin%	8.9%	8.9%	11.3%	8.5%	8.2%	11.1%	8.0%
Sales incl. MVML	47,792	52,848	49,907	52,672	12,893	10,935	12,466
Ebdita incl MVML	7,064	7,531	6,133	7,879	1,703	1,541	1,832
Net Profits incl MVML	4,639	5,402	5,923	4,513	1,396	1,355	1,107

Std/Fig in Rs Cr

- ❑ The company is expected to post 3%YoY decline in revenue led by 7%YoY decline in volumes. However, realization is expected to grow by 5%YoY in 3QFY20.
- ❑ The demand scenario is expected to improve going forward led by good monsoon, higher reservoir level, good moisture content in soil which is likely to have a positive impact on Rabi output and tractor industry is expected to end FY20 with decline of 8%.
- ❑ EBITDA margin is expected to improve by 30 bps QoQ led by softening commodity prices and better tractor mix. However margins are to largely remain range bound between 12.5-13% in FY20.
- ❑ The electric vehicle segment is expected to see continuing growth momentum going ahead.
- ❑ The tractors inventory level is expected to reduce by 1000-1500 vehicles in next 2-3 months.

Key Trackable this Quarter

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

We value the stock at Rs.656 on SOTP method. BUY

MSIL IN

CMP 7332
Target 7499
Upside 2%
Rating NEUTRAL

	FY18	FY19	FY20E	FY21E
Roe%	19%	16%	12%	15%
Roce%	22%	17%	9%	14%
P/E	34.0	27.3	37.6	27.0
P/B	6.3	4.4	4.4	4.0
EV/Ebdita	22.2	18.9	27.3	20.2

	FY18	FY19	FY20E	FY21E	3QFY19	2QFY20	3QFY20E
Capacity('000)	1900	1963	2213	2400	1900	1963	1963
Growth YoY							
Domestic	14%	6%	-12%	9%	1%	-31%	2%
Exports	2%	-14%	-1%	7%	-25%	-12%	3%
Total Volumes	13%	5%	-12%	9%	-1%	-30%	2%
Average Realisation	3%	3%	5%	3%	3%	9%	4%
<i>Financials</i>							
Sales	79,809	86,069	79,993	89,603	19,668	16,985	20,805
Sales Gr%	17%	8%	-7%	12%	2%	-24%	6%
Other Income	2,046	2,562	3,122	3,289	917	920	683
Ebdita	12,063	11,003	8,108	10,984	1,931	1,606	2,101
Ebdita Gr%	16%	-9%	-26%	35%	-36%	-53%	9%
Net Profits	7,881	7,651	5,889	8,214	1,489	1,359	1,376
Profit Gr%	5%	-3%	-23%	39%	-17%	-39%	-8%
Ebdita Margin%	15.1%	12.8%	10.1%	12.3%	9.8%	9.5%	10.1%
Net Profit Margin%	9.9%	8.9%	7.4%	9.2%	7.6%	8.0%	6.6%

Conso/Fig in Rs Cr

□ Revenue is expected to grow by 6%YoY largely driven by 2% YoY improvement in sales. Realization is also expected to improve by 4% YoY on account of better product mix and price hikes. The company has announced price hike to be taken in January across various models.

□ The management expects that the demand from rural markets is set to improve with better monsoon and expectations of a good crop.

□ EBITDA margin is expected to improve by 60 bps QoQ to 10.1% due to softening of commodity prices. However, further improvement in margins have been arrested due to higher discounts provided by the company during the festive season.

□ The company plans to launch petrol versions of Vitara Brezza and S-Cross during this fiscal year which would further give boost to company's sales as there is already a shift from diesel to petrol in all segments of the market.

□ The company has already stopped production of BS-IV cars models in which BS-VI has been introduced. For the rest of the models, the decision to cease BS-IV production will be taken keeping in mind the inventory levels. Inventory levels have fallen to 25-26 days and it is expected to remain at the same level going forward.

Key Trackable this Quarter

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

We value the stock at 27x FY21E EPS. NEUTRAL

MINDA IN

CMP 362
Target 387
Upside 7%
Rating NEUTRAL

	FY18	FY19	FY20E	FY21E
Roe%	24%	20%	15%	19%
Roce%	23%	21%	17%	20%
P/E	23.1	25.2	31.3	21.5
P/B	5.5	5.0	4.8	4.0
EV/Ebdita	14.5	11.8	13.0	10.6

	FY18	FY19	FY20E	FY21E	3QFY19	2QFY20	3QFY20E
Segment Revenue							
Switches	1,533	2,216	2,046	2,218	534	489	496
Horns/Acoustics	683	724	690	742	169	163	169
Lighting	1,151	1,311	1,312	1,443	337	313	310
Seating			250	1,000			
Others	1,103	1,163	1,664	1,492	431	190	431
<i>Financials</i>							
Sales	4,471	5,908	5,962	6,895	1,470	1,360	1,406
Sales Gr%	32%	32%	1%	16%	39%	-11%	-4%
Ebdita	534	725	732	895	180	162	173
Ebdita Gr%	43%	36%	1%	22%	43%	-15%	-4%
Net Profits	331	339	303	441	81	58	74
Profit Gr%	79%	3%	-11%	45%	23%	-35%	-9%
Ebdita Margin%	11.9%	12.3%	12.3%	13.0%	12.3%	11.9%	12.3%
Net Profit Margin%	7.4%	5.7%	5.1%	6.4%	5.5%	4.3%	5.2%

Conso/Fig in Rs Cr

- ❑ Revenue is expected to decline by 4%YoY. The management expects some buying momentum and restocking of BS-VI vehicles 4QFY20 and expects the industry to grow by 8-10% going ahead.
- ❑ The sensor business adds Rs.130-150 crs to the revenue and with the commissioning of new sensor plant it will further add Rs. 250-300crs to the topline.
- ❑ The controllers business is expected to be commissioned by the end of December 2019 while the sensor business is expected to be commissioned by end of March 2019. The 2W alloy wheel new plant is expected to be commissioned by April FY21.
- ❑ EBITDA margin is expected to improve by 40 bps QoQ to 12.3% led by favorable commodity prices and product mix.
- ❑ Harita Seating merger is expected to be completed by February or March 2020 and it is expected to add revenue of Rs 800-1200 crs to the topline going ahead.
- ❑ The company has entered into Wheel Speed Sensor Business in India and South Korea from Sensata Technology. The project cost of acquisition is estimated to be Rs. 42.21 crs and this deal is expected to be completed by July 2020. Revenue potential is expected to be Rs. 100-120 crs over next 4-5 years
- ❑ Capex for FY20 is expected to be around Rs. 450 crs.

Key Trackable this Quarter

- ❑ Management's take on passenger vehicle industry demand scenario (50% of revenue)
- ❑ New order status for BS-VI & EVs

We value the stock at 23x FY21E EPS. NEUTRAL

MSS IN

CMP 150
Target 161
Upside 7%
Rating NEUTRAL

	FY18	FY19	FY20E	FY21E
Roe%	23%	19%	17%	21%
Roce%	20%	17%	15%	18%
P/E	33.3	17.9	22.1	15.8
P/B	7.6	3.4	3.9	3.3
EV/Ebdita	15.6	7.9	9.0	7.3

	FY18	FY19	FY20E	FY21E	3QFY19	2QFY20	3QFY20E
Copper(USD/MT)	6,449	6,347	5,910	5,910	6,208	5,803	5,814
Crude(USD/Barrel)	56	66	56	56	61	56	55
Segment Revenue							
MSSL Standalone	7,440	7,581	7,079	7,673	1,730	1,653	1,695
SMR	12,106	13,181	13,136	14,117	3,328	3,112	3,361
SMP	26,177	30,179	34,361	37,807	8,255	7,988	8,667
PKC	7,940	9,643	10,004	10,953	2,442	2,425	2,442
Others	3,956	4,508	4,714	4,950	1,125	1,159	1,181
<i>Financials</i>							
Sales	56,293	63,523	67,568	73,595	16,473	15,924	16,909
Sales Gr%	33%	13%	6%	9%	14%	5%	3%
Ebdita	5,123	5,348	5,591	6,480	1,393	1,319	1,420
Ebdita Gr%	20%	4%	5%	16%	11%	1%	2%
Net Profits	2,260	2,098	2,137	2,990	555	458	604
Profit Gr%	4%	-7%	2%	38%	-1%	-8%	9%
Ebdita Margin%	9.1%	8.4%	8.3%	8.8%	8.5%	8.3%	8.4%
Net Profit Margin%	4.0%	3.3%	3.2%	4.1%	3.4%	2.9%	3.6%
D/E	1.0	1.0	0.9	0.7			

Conso/Fig in Rs Cr

- ❑ Revenue is expected to grow by 3%YoY based on growth in SMP business led by strong order book lined up with the OEMs. While other segments are expected to post muted growth.
- ❑ PKC business revenue is expected to improve on the rolling stock side from Europe, South America, Asia Pacific and China regions.
- ❑ The company has a robust order book of Rs. 143,851 crs (Euro 18.4 billion) at SMRP BV level.
- ❑ EBITDA margin is expected to improve by 10 bps QoQ to 8.4% during the quarter. However, the management expects the margins to improve from current levels on account of benign commodity prices.
- ❑ The Tuscaloosa plant profitability is expected to improve from March 2020 once all the new launches are made.
- ❑ The company is planning to do Brownfield expansion in Serbia and will do Greenfield expansion in Ras al Khaimah, UAE.
- ❑ Capex guidance for FY20 is Rs. 2000 crs.

Key Trackable this Quarter

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

We value the stock at 17x FY21E EPS. NEUTRAL

SKF IN

CMP 2215
Target 2365
Upside 7%
Rating ACCUMULATE

	FY18	FY19	FY20E	FY21E
Roe%	16%	20%	18%	19%
Roce%	21%	26%	19%	20%
P/E	30.2	27.3	29.9	24.1
P/B	4.9	5.4	5.5	4.6
EV/Ebdita	18.9	17.6	22.8	18.5

	FY18	FY19	FY20E	FY21E	3QFY19	2QFY20	3QFY20E
Segment Revenue							
Auto	1,141	1,275	1,145	1,297	307	262	282
Export	262	193	319	318	46	105	74
Industrial	1,348	1,568	1,624	1,821	415	381	423
Financials							
Sales	2,750	3,035	3,088	3,437	768	747	779
Sales Gr%	5%	10%	2%	11%	10%	-2%	1%
Other income	71	92	109	131	34	23	34
Ebdita	435	486	447	552	122	95	112
Ebdita Gr%	29%	12%	-8%	23%	-1%	-22%	-8%
Net Profits	296	336	363	450	85	85	98
Profit Gr%	21%	14%	8%	24%	3%	1%	11%
Ebdita Margin%	15.8%	16.0%	14.5%	16.1%	15.8%	12.7%	14.4%
Net Profit Margin%	10.8%	11.1%	11.7%	13.1%	11.1%	11.3%	12.6%

Std/Fig in Rs Cr

□ Revenue growth is expected to improve by 1% YoY led by increased exports contribution. Automotive segment is expected to decline by 8%YoY while industrial may grow by 2%YoY. Exports are expected to be in the range of 9-10% in the revenue contribution going ahead.

□ Under the railways freight segment, no orders for class-E bearings are lined up currently. As these are imported from Europe and localization is still pending for approval and will take around 3-6 month time for localization approval.

□ EBITDA margin is also expected to improve by 168 bps QoQ to 14.4% led by softening of commodity prices. The management is looking towards more localization within industrial going ahead.

□ Hub-3 bearing plant is expected to be commissioned in 3QFY20. The production capacity is expected to be around 350000 bearings. This could provide additional revenue of Rs.35-50 crores from FY21.

□ The orders are lined up till 4QFY20 from the new Hub-3 bearing plant up to a capacity of 175000 bearings and by 1HFY21 it is expected to reach at full capacity utilization.

□ Capex planned by the management for FY20 is Rs.80-130 crs.

Key Trackable this Quarter

- Update on passenger railways bearing orders .
- Wind energy orders update
- Management commentary on auto demand scenario.

We value the stock at 26x FY21E EPS . ACCUMULATE

SUBR IN

CMP 286
Target 247
Upside -13%
Rating NEUTRAL

	FY18	FY19	FY20E	FY21E
Roe%	15%	11%	13%	12%
Roce%	21%	20%	14%	17%
P/E	28.7	24.8	19.4	18.5
P/B	4.3	2.8	2.4	2.2
EV/Ebdita	8.9	8.5	9.2	7.4

	FY18	FY19	FY20E	FY21E	3QFY19	2QFY20	3QFY20E
Segment Revenue							
PV AC	1,761	1,945	1,846	1,933	476	436	448
Growth YoY	23%	10%	-5%	5%	14%	-17%	-6%
Non PV AC	152	179	286	350	35	60	70
Growth YoY	45%	18%	60%	22%	15%	46%	100%
<i>Financials</i>							
Sales	1,913	2,124	2,132	2,283	511	496	518
Sales Gr%	23%	11%	0%	7%	14%	-12%	1%
Ebdita	210	228	202	244	57	44	49
Ebdita Gr%	26%	9%	-11%	21%	19%	-26%	-14%
Net Profits	61	76	96	101	17	13	18
Profit Gr%	334%	26%	26%	5%	5%	-44%	7%
Ebdita Margin%	11.0%	10.7%	9.5%	10.7%	11.1%	8.9%	9.4%
Net Profit Margin%	3.2%	3.6%	4.5%	4.4%	3.4%	2.7%	3.5%
D/E	0.8	0.3	0.2	0.1			

Conso/Fig in Rs Cr

- Revenue is expected to improve by 1%YoY during the quarter. However, the management expects growth to pick up in 4QFY20 led by pre buying and new product launches.
- Home AC business and ECM business is expected to generate revenue of Rs. 100 crs and Rs. 230-240 crs respectively for FY20. The company is also expected to generate revenue of Rs 11-12 crs from the acquisition made with Zamil Air Conditioners for Home AC.
- Revenue contribution from trucks and buses is expected to be Rs. 48-50 crores and Rs. 35-40 crores respectively for FY20.
- The company has started production at the new Karsanpura Plant in Ahmedabad, Gujarat and will supply to SMG and the production capacity will be 12 lakh units.
- EBITDA margin is expected to increase by 50 bps QoQ largely because of benign commodity prices. Margins are expected to be in the range of 11-12% in next 2-3 years.
- The management has reiterated the capex guidance from Rs. 60-70 crores which will be used for new plant construction and new product development.

Key Trackable this Quarter

- New orders in PV and CV segment
- Home AC business revenue
- Localisation Trend: Import content stood at 30%

We value the stock at 16x FY21E EPS. NEUTRAL

SWE IN

CMP 1191
Target 1266
Upside 6%
Rating HOLD

	FY18	FY19	FY20E	FY21E
Roe%	35%	35%	32%	35%
Roce%	46%	47%	34%	39%
P/E	30.3	29.4	17.8	14.1
P/B	10.6	10.2	5.6	4.9
EV/Ebdita	19.9	18.4	13.2	10.6

	FY18	FY19	FY20E	FY21E	3QFY19	2QFY20	3QFY20E
Engine Volumes	92,022	99,638	92,789	98,845	22,569	26,271	21,802
Growth YoY	12%	8%	-7%	7%	3%	-8%	-3%
Average Realization	83,802	87,491	86,027	89,130	88,050	84,778	85,032
Growth YoY	4%	4%	-2%	4%	6%	-2%	-3%
<i>Financials</i>							
Sales	771	872	798	881	199	223	185
Sales Gr%	16%	13%	-8%	10%	-12%	-10%	-7%
Ebdita	122	132	109	136	27	30	24
Ebdita Gr%	16%	8%	-17%	25%	7%	-25%	-11%
Net Profits	80	82	81	103	17	25	19
Profit Gr%	16%	3%	-2%	27%	1%	0%	8%
Ebdita Margin%	15.8%	15.1%	13.7%	15.5%	13.8%	13.5%	13.2%
Net Profit Margin%	10.3%	9.4%	10.1%	11.7%	8.7%	11.4%	10.1%

Std/Fig in Rs Cr

- Revenue growth is expected to decline by 6.8% YoY in 3QFY20. Volumes are expected to decline by 3.4%YoY while realization is expected to decline by 3.4% YoY during the quarter.
- The management of M&M expects the domestic tractor industry to decline by 8% by the end of FY20 and M&M is expected to report 0-5% growth between December to March.
- The demand scenario is expected to improve going forward led by good monsoon, higher reservoir level, good moisture content in soil which is likely to have a positive impact on Rabi output.
- EBITDA margin is expected to decline by 30bps on sequential basis to 13.2% despite softening of commodity prices. Further margins are expected to improve based on increasing demand for higher HP tractors 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 15x FY21E EPS. HOLD

TVSL IN

CMP 459
Target 493
Upside 7%
Rating NEUTRAL

	FY18	FY19	FY20E	FY21E
Roe%	23%	20%	20%	22%
Roce%	26%	25%	22%	28%
P/E	43.0	31.3	25.1	19.2
P/B	9.9	6.3	5.0	4.3
EV/Ebdita	24.5	15.1	13.4	10.6

	FY18	FY19	FY20E	FY21E	3QFY19	2QFY20	3QFY20E
Growth YoY							
Domestic	16%	9%	-14%	5%	19%	-24%	-22%
Export	35%	33%	13%	10%	26%	6%	21%
Total Volumes	18%	13%	-9%	6%	20%	-19%	-17%
Average Realisation	6%	6%	6%	4%	6%	7%	4%
Financials							
Sales	15,175	18,210	17,559	19,421	4,664	4,348	4,075
Sales Gr%	25%	20%	-4%	11%	27%	-13%	-13%
Ebdita	1,175	1,433	1,497	1,889	376	382	363
Ebdita Gr%	37%	22%	4%	26%	31%	-11%	-3%
Net Profits	663	670	771	1,007	178	255	177
Profit Gr%	19%	1%	15%	31%	16%	21%	-1%
Ebdita Margin%	7.7%	7.9%	8.5%	9.7%	8.1%	8.8%	8.9%
Net Profit Margin%	4.4%	3.7%	4.4%	5.2%	3.8%	5.9%	4.3%

Std/Fig in Rs Cr

- ❑ Revenue is expected to decline by 13%YoY led by 17%YoY contraction in volumes. However, realization is expected to increase by 4% YoY driven by price hikes and exports growth.
- ❑ The rural demand sentiment is expected to revive steadily in 3-6 months led by good monsoon and improvement in infrastructure development.
- ❑ The company launched TVS Apache RTR 200 4V and TVS Apache RTR 160 4V BS-VI motorcycles along with BS-VI TVS Jupiter during the quarter. It has also strengthened its presence in Central America by partnering with Cadisa Group for Guatemala & El Salvado.
- ❑ The company has started producing and selling BS-VI models from November month. It will also launch electric vehicle during 2HFY20.
- ❑ EBITDA margin is expected to improve by 10 bps on sequential basis largely through various cost cutting initiatives, commodity cost benefit and export contribution.
- ❑ The current inventory level stands at 5 weeks.
- ❑ Effective Tax rate is expected to remain at the level of 25% going forward in FY20.
- ❑ Capex guidance for FY20 is Rs. 600-700 crs which is to be spent on BS-VI, electric vehicles and new product developments.

Key Trackable this Quarter

- ❑ Investment in loss making subsidiaries (PT. Indonesia and Singapore)
- ❑ Management commentary on margins

We value the stock at 20x FY21E EPS + Rs.61 /share for TVS credit Services. NEUTRAL

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