Sector Thematic

Autos

Will EVs impact the 'EV'?

With the growing acceptance of Electric Vehicles, we deliberate the longer term impact on the Enterprise Value of conventional auto OEMs. We believe that as EVs become mainstream, the terminal growth assumptions for passenger car OEMs will be at risk. Based on the sensitivity to changes in the terminal values for Maruti Suzuki, the impact on the DCF will be between 10-20%. For two-wheelers, the threat from EVs is more near term (over the next 3-5 years). Thus, the second stage DCF assumptions will be at risk for the incumbents. Based on our sensitivity analysis of Hero Motocorp, if we assume lower growth rates from the second stage onwards, the impact on the stock values will be between 15-25%.

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- We have attempted to derive the potential valuation impact that conventional OEMs could have, as the technology disruptions accelerate. While the incumbent managements will launch electric products as well, it will be increasingly complex to gauge the long-term impact on market share as well as profitability.
- We believe that passenger vehicle OEMs such as Maruti will introduce hybrid models, which will enable the company to transition towards EVs in the medium term (FY25-30). However, as we look further ahead i.e. beyond 2030, the outlook becomes cloudy as the longer-term threat from BEVs and the resultant competitive dynamics will impact the traditional business models in different manners.
- Based on our analysis, the terminal growth assumptions for PV OEMs will be at risk. **In our DCF-based working, a 1.5% reduction in terminal growth rate will impact the stock value of Maruti by ~10%.** Based on the sensitivity to changes in the terminal values, the impact on the DCF value will be between 10-20%.
- The 2W segment is likely to witness a more near term adoption from EVs as startups such as Ather, Ola and others have aggressive ramp-up plans. The threat from EVs could emerge earlier i.e., over the next 3-5 years itself. Thus, the second stage DCF assumptions will be at risk for the incumbents. Based on our sensitivity analysis of Hero Motocorp, **if we assume lower growth rates from the second stage onwards, the impact on the value will be between 15-25%.**
- To adapt to the changing environment, the Indian OEMs are accelerating their shift towards EVs by either (1) investing in startups (Hero has invested in Ather), (2) increasing collaborations (Maruti with Toyota) and (3) launching EV products (Tata Motors, Bajaj).
- Moreover, global OEMs have announced ambitious plans to roll out electric vehicles over the next decade. European majors, including VW, Daimler, BMW and JLR, have announced plans to have ~20% of their portfolio as electric by 2025 and ~50% by 2030.
- **Downgrade Hero Motocorp to ADD:** We are downgrading Hero on lower-than-expected industry growth rates (2W demand has been tepid since the festive season; the recent fuel price increases and potential product price hikes will impact consumer affordability) as well as rising commodity input prices. While the ramp-up in the premium portfolio will drive segmental diversification for Hero, the above factors will impact overall profitability.

	CMP (Rs/sh)	Reco	TP (Rs)
Ashok Leyland	118	REDUCE	97
Bajaj Auto	3,747	BUY	4,250
Eicher	2,631	REDUCE	2,600
Escorts	1,273	ADD	1,480
Hero Motocorp	2,958	ADD	3,350
Mahindra	806	ADD	880
Maruti Suzuki	6,923	BUY	9,000
Tata Motors	308	BUY	315

Source: BSE, HSIE Research, CMP as of 1st Apr-21

Maruti Suzuki DCF based sensitivity analysis

Change in terminal growth rates	Value is impacted by
1.5%	-10%
3.0%	-20%

Source: HSIE Research

Hero Moto DCF based sensitivity analysis

Change in terminal growth rates	Value is impacted by*
1.5%	-15%
3.0%	-25%

Source: HSIE Research, *includes impact on the 2nd stage growth as well

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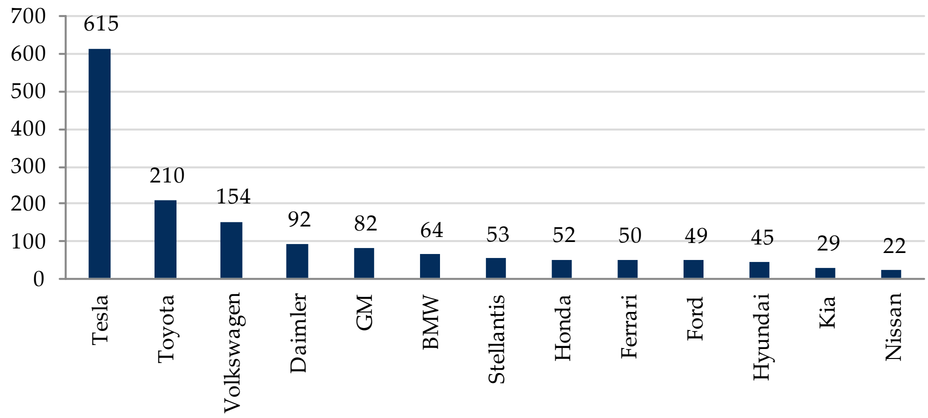
With the growing acceptance of Electric Vehicles, we deliberate the impact on the Enterprise Value of conventional auto OEMs in the longer term. We believe that as EVs become mainstream, the terminal growth assumptions for passenger car OEMs will be at risk. Based on the sensitivity to changes in the terminal values for Maruti Suzuki, the impact on the DCF will be between 10-20%. For two-wheelers, the threat from EVs is more near term (over the next 3-5 years). Thus, the second stage DCF assumptions will be at risk for the incumbents. Based on our sensitivity analysis of Hero Motocorp, if we assume lower growth rates from the second stage onwards, the impact on the stock values will be between 15-25%.

- While EVs account for a nominal ~5% of global sales, the acceptance of this technology is increasingly well demonstrated. Electric vehicles are gaining more traction, with the premium American OEM Tesla retailing c. half a million vehicles. Consequently, Tesla's market capitalisation has exceeded that of the 'conventional' OEMs'.

Mcap of international OEMs (in $bn)



Source: Industry, HSIE Research

- Amidst a changing environment, we deliberate about the evolving business models of conventional auto OEMs and the impact on the valuations for these businesses in the longer term.

Expected timeframes for EV evolution in India

Segment	Near term (FY22-25)	Medium term (FY25-30)	Long term (beyond FY30)
2Ws	Moderate	High	High
Cars	Mild	Medium	High
CVs	Mild	Medium	Medium

Source: HSIE Research

- We believe that, in India, the transition towards electrics will likely be in the latter half of the decade i.e., beyond 2025. The 2W segment is witnessing more aggression with startups such as Ather, Ola, etc. having announced ramp-up plans in EVs. However, the 4W OEMs are witnessing limited competition, with the existing majors announcing plans to launch hybrids/electrics in a calibrated manner.

The potential impact of EV on sub-segments

Segments	EV impact
2Ws	Aggressive plans by startups including Ather, Ola
3Ws	Battery swapping could drive the electrification of this business
Cars	Early adoption could be through hybrids, Tata is more aggressive with EVs
CVs	Bus segment is early adopter, Heavy Goods vehicles will be more difficult to electrify

Source: HSIE Research

- In this backdrop, we have attempted to build a framework on the potential valuation impact that conventional OEMs could have, as the technology disruptions take place.
- While the incumbent managements will launch EV products, it is increasingly complex to gauge the long-term impact on market share as well as profitability, given that the environment is dynamic and business models yet evolving.
- We believe that for passenger vehicle companies such as Maruti, the business model will be relatively insulated in the near term (over FY22-25E) as conventional products will remain mainstream. We believe that Maruti along with Toyota will launch hybrid models, which will enable the OEM to transition towards electric vehicle technology in the medium term (FY25-30). However, as we look further ahead, i.e. beyond 2030, the outlook becomes cloudy as the longer-term threat from BEVs and the resultant competitive dynamics will impact the traditional business models (we await detailed plans for Maruti Suzuki to launch Battery Electric Vehicles). Further, as OEMs start to transition towards EVs, the complexity of the industry will increase.
- With this backdrop, we believe the longer-term value of the business will be at risk. **Amidst this environment, we believe that the terminal growth rate assumptions could be at risk.**
- **In our scenario analysis, a 1.5% reduction in terminal growth rate will impact the stock value by ~10%.** Based on the sensitivity to changes in the terminal values, the impact on the DCF valuation will be between 10-20%.

Maruti Suzuki DCF

We have assumed a WACC of 13%

Phase-I accounts for ~9% of the total value

Phase-II accounts for ~22% of the total value

Rs mn	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E
FCF	35,710	54,708	74,887	1,16,366	1,35,823	1,53,539	1,74,320	2,02,609	2,31,667	2,69,446
Discount multiple	1.00	0.88	0.78	0.69	0.61	0.54	0.48	0.43	0.38	0.33
Discounted value	35,710	48,414	58,648	80,647	83,303	83,335	83,729	86,121	87,144	89,694
10 years cash flow						7,36,745				
Terminal value						**12,67,681**				
Cash & investments						**3,58,300**				
Total value						23,62,725				

Terminal value is ~54% of the total

Source: Company, HSIE Research

Terminal value calculation – Scenario analysis

	Base case	Scenario 1	Scenario 2
Terminal growth rate	5.5%	4.0%	3.0%
Discounted terminal value (Rs mn)	1,267,681	1,056,401	950,761
% impact to the overall value		**-10%**	**-20%**

Source: Company, HSIE Research

- For two-wheelers, we believe the threat from EVs could emerge earlier, i.e. over the next 3-5 years itself. In that case, we believe that the second stage growth assumptions will be more at risk for the incumbents.
- Ather has launched its revamped EV scooter, which is faster than a conventional 125cc model. The product has received encouraging reviews, with several experts/startups that attended our Autos and Mobility Conference highlighting that the 450x offers superior performance. The model has a top speed of 80km/h and does 0-40km/hr in 3.3 seconds, besides offering a range of 85km. After the launch of the model, Ather has aggressive pan-India expansion plans. The startup has set up a new facility in Hosur, with an annual capacity of 110,000 units and 120,000 lithium-ion battery packs. The capacity is scalable to 500K units in the future, based on demand trends.
- Ola Electric has announced ambitious plans to set up a new facility at an investment of up to Rs 24bn and an initial capacity of 2m units. The integrated manufacturing facility will house operations for battery, paint shop, welding, motor, general assembly, finished goods and will also have two supplier parks. Furthermore, the plant will have its test track. This facility is likely to come onstream by Jun'21 and is scalable up to an annual capacity of 10 million units.

Capacity announcements by EV startups

EV Startups	Capacity (units)	Scalable to	Investment
Ather	110,000	500,000	Rs 6.35bn over next 5 years
Ola Electric	2,000,000	10,000,000	Rs 24bn

Source: Industry, HSIE Research

- As the competition is ramping up, incumbents are also developing their EV scooters i.e., Bajaj Chetak, Hero Maestro EV and TVS i-Cube. Besides, Hero Moto has a ~35% stake in Ather, which has enabled the OEM to be a part of the EV ecosystem.
- We believe that amidst a dynamic environment, the competitive environment is likely to intensify. We believe that the second growth stage (i.e. FY25-30E) of the two-wheeler OEMs will witness higher volatility if EVs were to make bigger inroads.
- Based on our DCF working of Hero Motocorp, the second growth stage over FY25-30 accounts for ~20% of value. **If we assume lower growth rates from this stage onwards, the impact on the DCF valuation of these OEMs will be between 15-25%.**

Hero Motocorp DCF

We have assumed a WACC of 13%

Rs mn	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E
FCF	26,565	26,716	30,970	35,307	39,343	43,770	48,629	55,448	60,104	65,125
Discount multiple	1.00	0.88	0.78	0.69	0.61	0.54	0.48	0.43	0.38	0.33
Discounted value	26,565	23,643	24,254	24,470	24,130	23,757	23,357	23,569	22,609	21,679

Phase-I accounts for ~16% of the total value

Phase II growth assumptions are at risk

Phase-II accounts for ~22% of the total value

10 years cash flow	238,032
Terminal value	**304,954**
Cash & investments	**84,645**
Total value	627,631

Terminal value is ~49% of the total

Source: Company, HSIE Research

Terminal value calculation – Scenario analysis

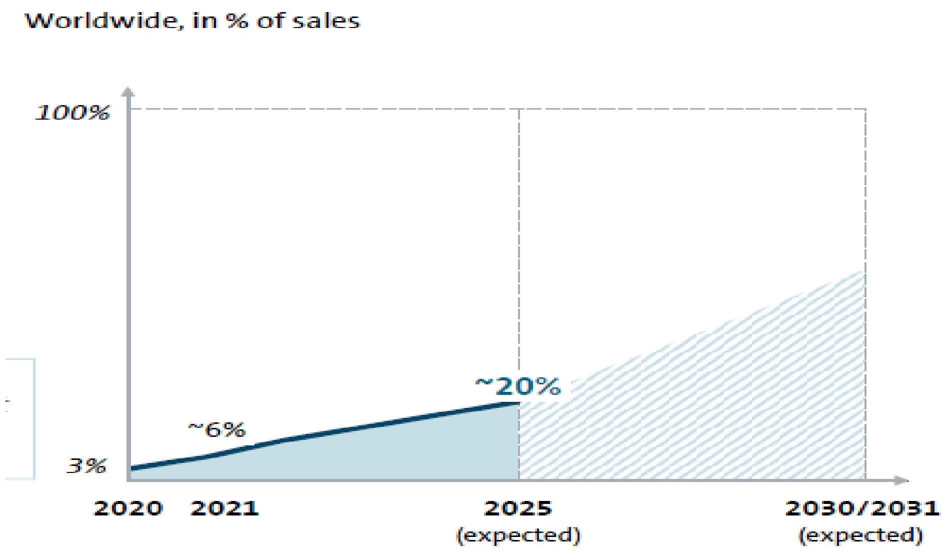
	Base case	Scenario 1	Scenario 2
Growth rate	5.5%	4.0%	3.0%
Discounted terminal value (Rs mn)	304,954	254,128	228,715
% impact to the total value*		**-15%**	**-25%**

Source: Company, HSIE Research, *includes impact on the 2nd stage growth as well

Electric vehicle – global OEMs plan to adapt to the change

- The conventional auto OEMs are gradually transitioning their business model towards electrics. The latest commentary from the European OEMs highlights this shift – **JLR has targets of becoming 35% EVs by 2026, VW has a 20% target by 2025 and 50% by 2030 and BMW has also echoed similar targets.** However, the risk of the legacy business scaling down over time and the consequent impact on stock valuations have to be considered, in our view.
- **Volkswagen:** As per the recent commentary from Volkswagen, they highlight that profit pools will shift from conventional cars first into EVs and then radically into the software. The management believes that the OEM is well on its way for the first transition into EVs, and there are even signs that the electric business could be at least as good as the business with the conventional cars. The ICE portfolio will broadly finance the transition. At the same time, the company highlights that there are still a significant number of customers demanding ICE vehicles, and this will continue for a significant number of years to come. Therefore, the traditional portfolio is an asset and necessary to protect operating margins during the BEV ramp-up.
- VW expects electric sales to be 20% (up from 6% currently) of its sales by 2025 and 50% in 2030.

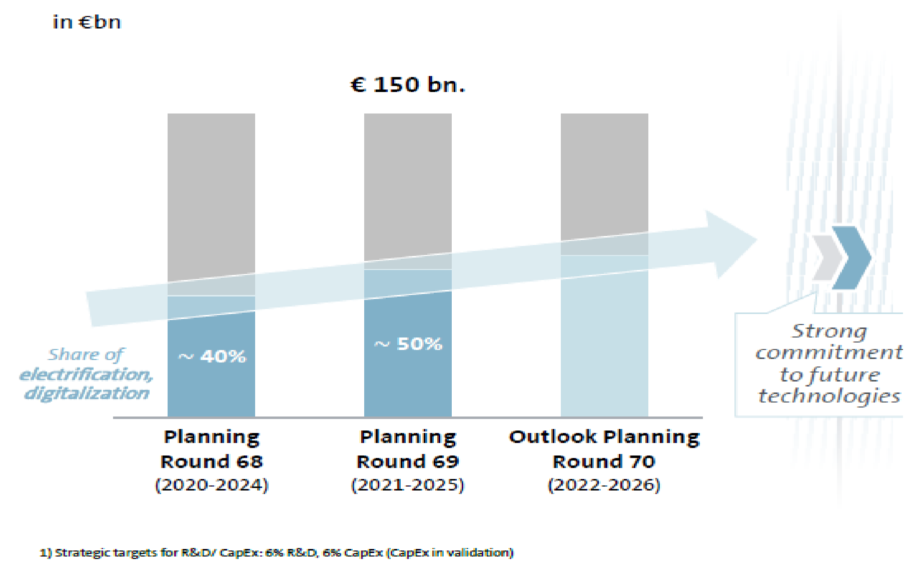
BEV share – Volkswagen group



Source: Company, HSIE Research

- The investments in R&D/Capex are now incrementally towards the new age technologies as the company scales up the BEV platforms. VW is also going to develop a leading automotive software stack and will invest in autonomous driving and mobility services.

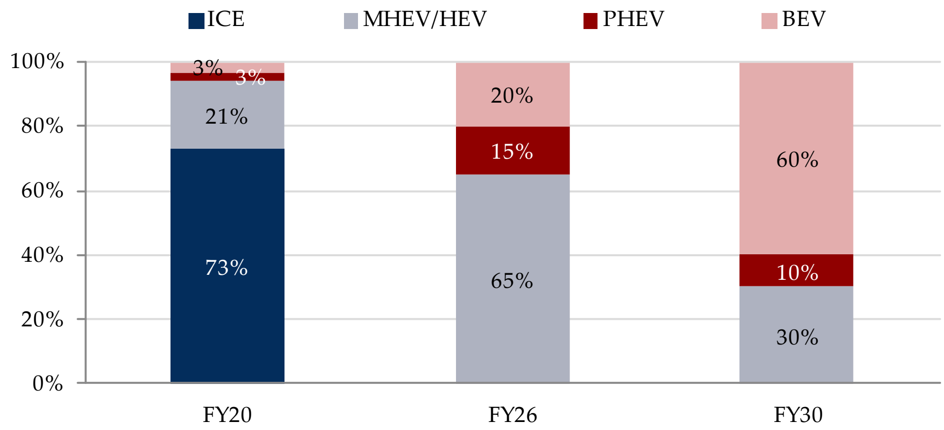
VW- Investments in R&D and Capex



Source: Company, HSIE Research

- Similarly, JLR has also set aggressive EV targets. The company is targeting a 35% share from EVs by FY26 and 70% in FY30E (up from 3% today).

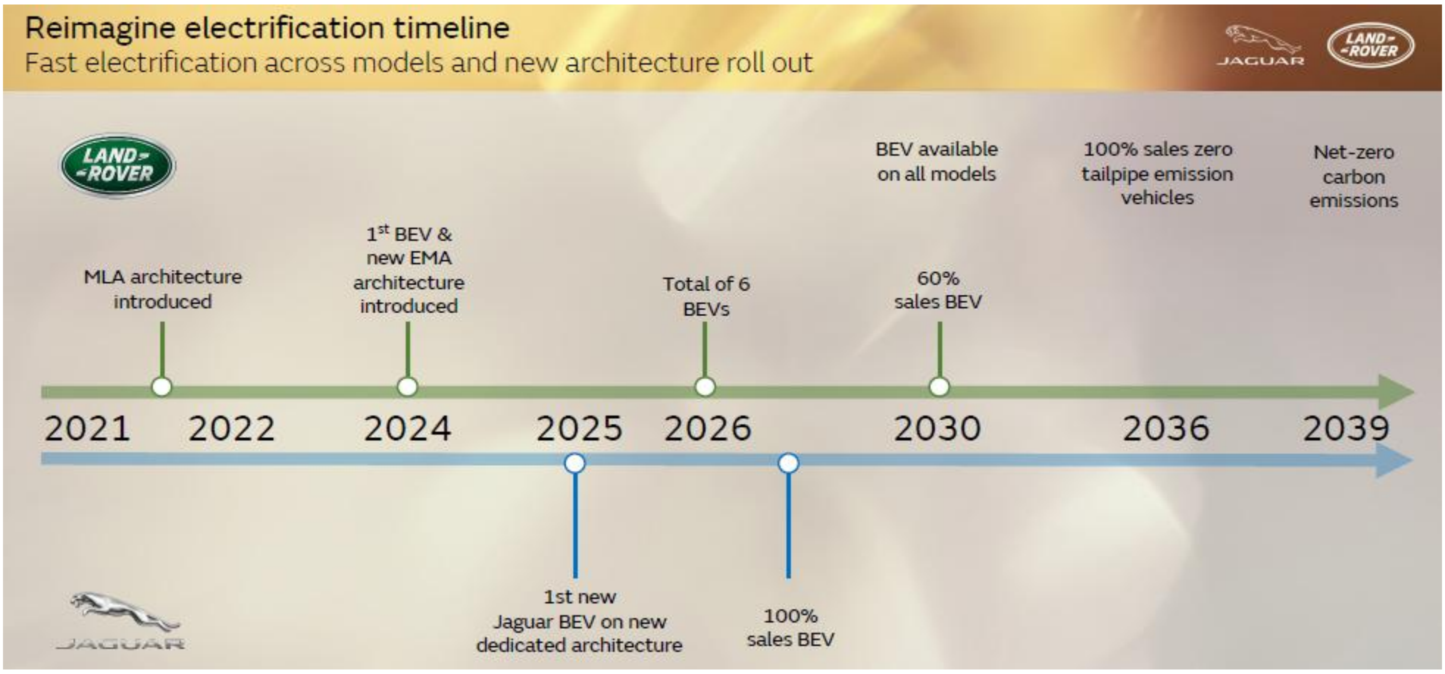
JLR EV mix (%)



Source: Company, HSIE Research

- Jaguar is targeting to be all-electric from 2025 onwards with new model launches on the EV platform.

JLR EV timeline



Source: Company, HSIE Research

- Other global OEMs are setting similar targets with Mercedes and BMW guiding for 50% EV sales by 2030. Brands such as Mini will go all-electric by then, with the last combustion engine by 2025.

EV environment in India

- At our recent 'HSIE Autos and Mobility Conference', the key themes emerged around electrification, as the industry is preparing to diversify beyond combustion engines. In conversations with participants, while the path to adoption of EVs remains unclear, managements are ramping up investments.
- The most aggressive on EV launches is Tata Motors. On the other hand, Hero has adopted a dual strategy of investing in startups as well as developing vehicles in-house.
- ***Link to our report:*** ***Combustion, Diversification, Electrification***

Increasing focus of OEMs on electric

Auto OEMs	EV Plans
Tata Motors	Developing longer-range EVs for India. Launch of Altroz EV in FY22.
Hero	Invested in Ather. Own EV scooter to be rolled out soon.
Bajaj Auto	Will ramp-up production of e-Chetak to 5k units/month.
Mahindra	Will develop EV platforms for last-mile and SUVs.

Source: Companies, HSIE research

- For passenger cars, the early adoption of EV technology will be limited, in our view, due to multiple constraints including lengthy charging times, high capital costs, as well as range anxiety concerns in the small car segment. Further, OEMs are divided on the technology road map as mass-market OEMs are promoting hybrids alongside EVs.

- Dr Sumantran of Celeris Technologies highlighted at our conference that hybrids are a go-between technology in India as it addresses the issue of range anxiety and limited charging infrastructure. This product is also likely to be more affordable as compared to EVs. Further, until lithium-ion battery prices remain elevated, the adoption of BEVs will be limited.
- Along with developing electric products in-house, OEMs are open to collaborations, to reduce the speed-to-market as well as maintain capital efficiency. Part suppliers are attempting to be segment agnostic, developing components for ICE, hybrid and EV products.

Indian OEMs are making a shift towards EVs through investments & collaborations

OEM	Partner / Colloborator
Maruti	Toyota
Tata Motors	Open to partnership, benefitting from JLR's global knowhow
Hero Motocorp	Invested in Ather, growing inhouse capabilities
Bajaj Auto	Inhouse capabilities & global tie-up with KTM
Ashok Leyland	Acquired Optare UK

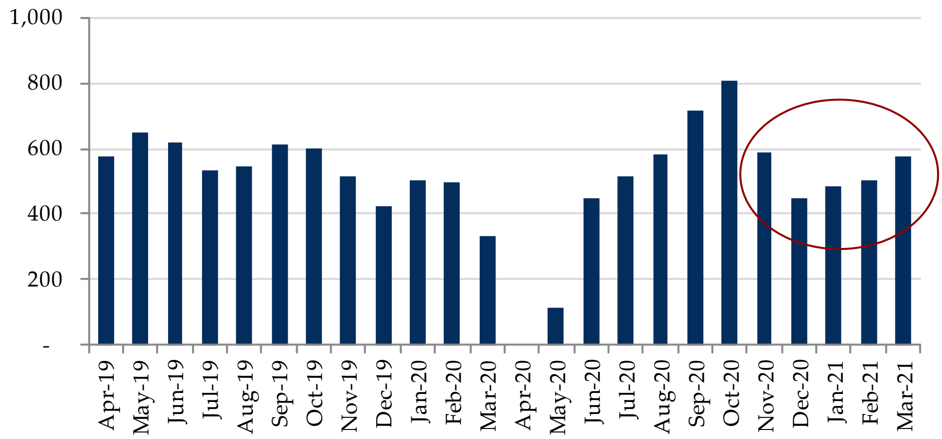
Source: Companies, HSIE research

- The most aggressive on EV launches is Tata Motors - after the successful launch of the Nexon SUV, the OEM will launch the Altroz EV variant and will roll out longer-range models. Tata is expecting that the industry will be 7-10% electric in the next five years. By having an early mover advantage in EVs, Tata is targeting to gain market share in the overall Passenger Vehicle segment as the industry transitions towards electrics.
- Tata Motors e-universe in India will be created by leveraging the Tata group ecosystem – wherein the company will produce BEVs, Tata Chemicals will produce lithium-ion batteries, Tata Power will set up charging infrastructure, Tata Finance will provide loans and TCS will provide the software.
- Commercial buses are also moving towards electric – Tata has received 340 electric bus orders from Mumbai for 9 meters buses, which would be delivered over the next six months. Other cities ordering EV buses are Ahmedabad, Jaipur, and Delhi. In all these states, new conventional buses are not allowed to be ordered anymore. The FAME subsidy program for each vehicle is as high as Rs 4.5-5.5m per bus.
- However, electrification of heavy goods vehicles will be more challenging, considering the heavy loads that are required to be transported.
- Other OEMs are adopting different methods towards electrification as highlighted above with Hero already invested in Ather. For the mass segment, Hero will launch the Maestro EV scooter in FY22. Bajaj will ramp up production of the Chetak to 5,000 units gradually, from the current low levels.

Hero Motocorp: Downgrade to ADD

- We are downgrading Hero on rising commodity input prices as well as lower-than-expected industry growth rates (2W demand has been tepid since the festive season, the recent fuel price increases and potential product price hikes will impact consumer affordability). While the ramp-up in the premium portfolio will drive segmental diversification for Hero, the above factors will impact overall growth rates/profitability.
- **Monthly volumes have been static**: The monthly volumes of Hero Moto and the two-wheeler domestic industry have been moderating post the festive season. Retails were flattish during the festive months and since then the entry-level sales have been impacted (See our note: **Divergent trends in PVs and 2Ws**). As fuel prices have risen over the past quarter and product price hikes are likely, we believe that the demand recovery trends will be lower than anticipated.

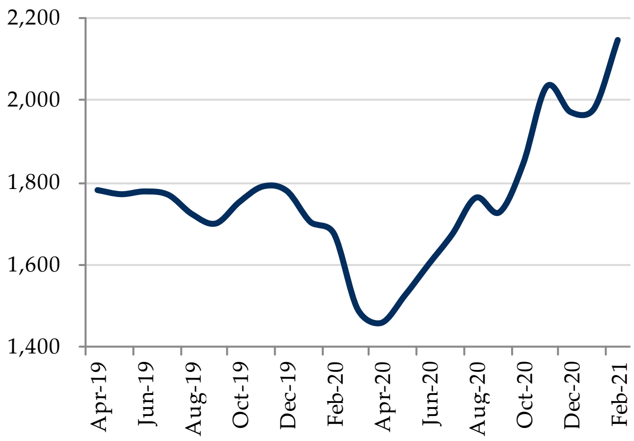
Hero Motocorp's monthly volumes trend (in '000 units)



Source: Company, HSIE Research

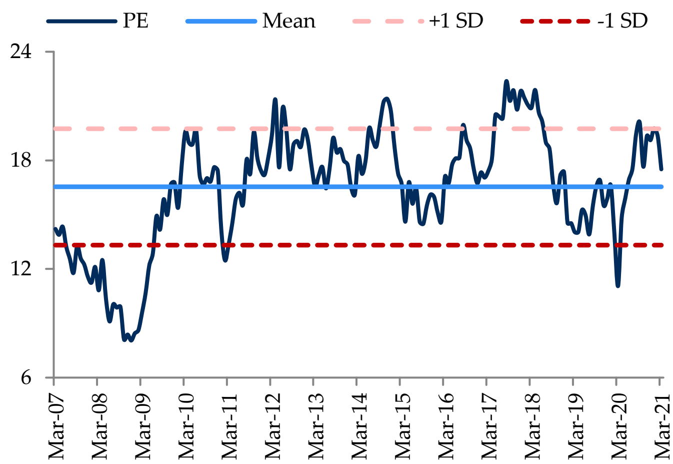
- **Commodity prices have firmed up:** Prices for base metals including Aluminum and steel have risen sharply. These commodities account for 12-15% of the vehicle price and the input price inflation is expected to be at 200-300bps. We believe that given a soft recovery, the OEM will have to partially absorb the cost inflation due to the above, which will partially offset the margin benefits accruing from improved leverage.

Rising aluminium prices to affect margins ($/t)



Source: Bloomberg, HSIE Research

Hero Motocorp's one year forward P/E band chart



Source: Bloomberg, Company, HSIE Research

- **Target price**: We are lowering our EPS by 6% over FY23E to factor in the above and setting a revised FY23E target price of Rs 3,350. We change our recommendation to an ADD (BUY earlier) as we value the stock at 17.5x P/E, which is at a 5% premium to its long-term average historic trading multiple (vs 19x earlier). Key risks: higher competitive intensity on the downside, A sharp correction in input prices on the upside.

Change in estimates

Rs mn	New			Old			% change		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	300,477	339,727	376,217	293,657	329,763	368,596	2	3	2
EBITDA	38,178	44,181	49,903	37,899	43,546	51,620	1	1	(3)
EBITDA Margin (%)	12.7	13.0	13.3	12.9	13.2	14.0	-20bps	-20bps	-74bps
PAT	29,506	34,350	38,363	29,407	34,081	40,769	0	1	(6)
EPS	147.7	172.0	192.1	147.2	170.6	204.1	0	1	(6)

Source: Company, HSIE Research

Hero Motocorp Financials

Standalone Income Statement

Rs mn	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Net Revenues	**284,750**	**322,305**	**336,505**	**288,361**	**300,477**	**339,727**	**376,217**
Growth (%)	***0.1***	***13.2***	***4.4***	***(14.3)***	***4.2***	***13.1***	***10.7***
Material Expenses	190,118	218,346	233,177	196,974	213,021	240,170	265,367
Employee Expenses	13,960	15,401	17,302	18,417	19,531	20,723	22,573
Other Operating Expenses	34,324	35,755	36,725	33,390	29,747	34,652	38,374
Total Expenses	**238,402**	**269,503**	**287,205**	**248,781**	**262,300**	**295,545**	**326,314**
EBITDA	**46,348**	**52,802**	**49,301**	**39,580**	**38,178**	**44,181**	**49,903**
EBITDA Margin (%)	***16.3***	***16.4***	***14.7***	***13.7***	***12.7***	***13.0***	***13.3***
EBITDA Growth (%)	***4.0***	***13.9***	***(6.6)***	***(19.7)***	***(3.5)***	***15.7***	***13.0***
Depreciation	4,927	5,556	6,020	8,180	6,857	7,457	8,257
EBIT	**41,421**	**47,246**	**43,281**	**31,400**	**31,321**	**36,725**	**41,646**
Other Income (Including EO Items)	7,157	5,258	6,913	14,557	7,338	8,373	8,892
Interest	61	63	86	220	189	196	232
PBT	**48,517**	**52,442**	**50,107**	**45,737**	**38,470**	**44,901**	**50,306**
Tax (Incl Deferred)	12,813	15,468	16,259	9,404	8,963	10,552	11,943
Minority Interest	-	-	-	-	-	-	-
RPAT	**35,704**	**36,974**	**33,849**	**36,333**	**29,506**	**34,350**	**38,363**
EO (Loss) / Profit (Net Of Tax)	(1,318)	-	-	(5,381)	-	-	-
APAT	**34,386**	**36,974**	**33,849**	**30,952**	**29,506**	**34,350**	**38,363**
APAT Growth (%)	*8.8*	*7.5*	*(8.5)*	*(8.6)*	*(4.7)*	*16.4*	*11.7*
Adjusted EPS (Rs)	**172.2**	**185.1**	**169.5**	**155.0**	**147.7**	**172.0**	**192.1**
EPS Growth (%)	***8.8***	***7.5***	***(8.5)***	***(8.6)***	***(4.7)***	***16.4***	***11.7***

Source: Company, HSIE Research

Standalone Balance Sheet

Rs mn	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
SOURCES OF FUNDS							
Share Capital – Equity	399	399	400	400	400	400	400
Reserves	100,714	117,289	128,172	140,965	156,288	174,259	194,245
Total Shareholders Funds	**101,113**	**117,689**	**128,571**	**141,364**	**156,688**	**174,658**	**194,644**
Total Debt	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Net Deferred Taxes	**4,143**	**5,117**	**5,365**	**5,428**	**5,536**	**5,647**	**5,760**
TOTAL SOURCES OF FUNDS	**105,256**	**122,805**	**133,936**	**146,792**	**162,224**	**180,305**	**200,405**
APPLICATION OF FUNDS							
Net Block	45,899	47,692	47,998	62,981	57,979	58,612	58,444
CWIP	2,707	2,038	3,607	1,603	1,442	1,298	1,168
Investments	8,758	10,209	15,718	19,791	21,770	23,947	26,342
Total Non-current Assets	**57,364**	**59,938**	**67,322**	**84,374**	**81,191**	**83,857**	**85,954**
Cash & Equivalents	51,508	66,456	45,333	64,854	76,273	90,463	108,177
Inventories	6,563	8,236	10,724	10,920	11,525	13,031	14,430
Debtors	15,619	15,202	28,216	16,031	24,697	26,992	29,891
Other Current Assets	15,889	17,556	24,817	11,314	11,872	12,541	13,229
Total Current Assets	**89,578**	**107,450**	**109,090**	**103,119**	**124,368**	**143,027**	**165,728**
Creditors	32,473	33,188	33,553	30,305	32,106	34,438	38,137
Other Current Liabilities & Provns	9,214	11,395	8,923	10,396	11,228	12,140	13,140
Total Current Liabilities	**41,686**	**44,583**	**42,476**	**40,701**	**43,334**	**46,578**	**51,277**
Net Current Assets	**47,892**	**62,867**	**66,614**	**62,418**	**81,034**	**96,448**	**114,450**
TOTAL APPLICATION OF FUNDS	**105,256**	**122,805**	**133,936**	**146,792**	**162,224**	**180,305**	**200,405**

Source: Company, HSIE Research

Standalone Cash Flow

(Rs mn)	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Reported PBT	48,517	52,442	50,107	45,737	38,470	44,901	50,306
Non-operating & EO Items	(7,157)	(5,258)	(6,913)	(14,557)	(7,338)	(8,373)	(8,892)
Interest Expenses	61	63	86	220	189	196	232
Depreciation	4,927	5,556	6,020	8,180	6,857	7,457	8,257
Working Capital Change	5,164	(27)	(24,871)	23,718	(7,197)	(1,225)	(288)
Tax Paid	(10,895)	(14,495)	(16,010)	(9,342)	(8,855)	(10,441)	(11,830)
OPERATING CASH FLOW (a)	**40,617**	**38,280**	**8,420**	**53,956**	**22,126**	**32,515**	**37,786**
Capex	(11,636)	(6,679)	(7,895)	(21,159)	(1,694)	(7,946)	(7,960)
Free Cash Flow (FCF)	28,981	31,602	525	32,797	20,432	24,569	29,826
Investments	(2,821)	(1,451)	(5,509)	(4,073)	(1,979)	(2,177)	(2,395)
Non-operating Income	7,157	5,258	6,913	14,557	7,338	8,373	8,892
INVESTING CASH FLOW (b)	**(7,300)**	**(2,872)**	**(6,491)**	**(10,675)**	**3,665**	**(1,750)**	**(1,463)**
Debt Issuance/(Repaid)	-	-	-	-	-	-	-
Interest Expenses	(61)	(63)	(86)	(220)	(189)	(196)	(232)
FCFE	28,920	31,539	439	32,577	20,243	24,373	29,594
Share Capital Issuance	(5,961)	(1,426)	(5,588)	(5,563)	0	-	-
Dividend	(16,975)	(18,972)	(17,378)	(17,978)	(14,182)	(16,380)	(18,377)
FINANCING CASH FLOW (c)	**(22,996)**	**(20,460)**	**(23,052)**	**(23,760)**	**(14,371)**	**(16,576)**	**(18,609)**
NET CASH FLOW (a+b+c)	**10,321**	**14,949**	**(21,123)**	**19,521**	**11,419**	**14,189**	**17,714**
Closing Cash & Equivalents	51,508	66,456	45,333	64,854	76,273	90,463	108,177

Source: Company, HSIE Research

Key Ratios

	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
PROFITABILITY (%)							
GPM	33.2	32.3	30.7	31.7	29.1	29.3	29.5
EBITDA Margin	16.3	16.4	14.7	13.7	12.7	13.0	13.3
EBIT Margin	14.5	14.7	12.9	10.9	10.4	10.8	11.1
APAT Margin	12.1	11.5	10.1	10.7	9.8	10.1	10.2
RoE	36.3	33.8	27.5	22.9	19.8	20.7	20.8
RoIC (or Core RoCE)	59.1	60.5	40.3	29.3	28.6	32.0	34.9
RoCE	35.1	32.5	26.4	22.2	19.2	20.1	20.2
EFFICIENCY							
Tax Rate (%)	26.4	29.5	32.4	20.6	23.3	23.5	23.7
Fixed Asset Turnover (x)	6.2	6.8	7.0	4.6	5.2	5.8	6.4
Inventory (days)	8.4	9.3	11.6	13.8	14.0	14.0	14.0
Debtors (days)	20.0	17.2	30.6	20.3	30.0	29.0	29.0
Other Current Assets (days)	20.4	19.9	26.9	14.3	14.4	13.5	12.8
Payables (days)	41.6	37.6	36.4	38.4	39.0	37.0	37.0
Other Current Liab & Provns (days)	11.8	12.9	9.7	13.2	13.6	13.0	12.7
Cash Conversion Cycle (days)	(4.6)	(4.1)	23.1	(3.1)	5.8	6.4	6.1
Debt/EBITDA (x)	(1.1)	(1.3)	(0.9)	(1.6)	(2.0)	(2.0)	(2.2)
Net D/E (x)	(0.5)	(0.6)	(0.4)	(0.5)	(0.5)	(0.5)	(0.6)
Interest Coverage (x)	684.6	755.9	503.3	142.6	165.7	187.4	179.5
PER SHARE DATA (Rs)							
EPS	172.2	185.1	169.5	155.0	147.7	172.0	192.1
CEPS	203.5	213.0	199.6	222.8	182.0	209.3	233.4
Dividend	85.0	95.0	87.0	90.0	71.0	82.0	92.0
Book Value	506	589	644	708	784	874	974
VALUATION							
P/E (x)	17.2	16.0	17.5	19.1	20.0	17.2	15.4
P/BV (x)	5.8	5.0	4.6	4.2	3.8	3.4	3.0
EV/EBITDA (x)	11.6	9.9	11.1	13.3	13.5	11.3	9.7
EV/Revenues (x)	1.9	1.6	1.6	1.8	1.7	1.5	1.3
OCF/EV (%)	7.5	7.3	1.5	10.3	4.3	6.5	7.8
FCF/EV (%)	5.4	6.0	0.1	6.2	4.0	4.9	6.2
FCFE/Mkt Cap (%)	4.9	5.3	0.1	5.5	3.4	4.1	5.0
Dividend Yield (%)	2.9	3.2	2.9	3.0	2.4	2.8	3.1

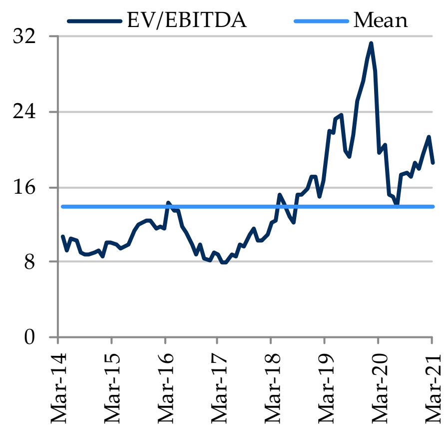
Source: Company, HSIE Research

Peer-set comparison

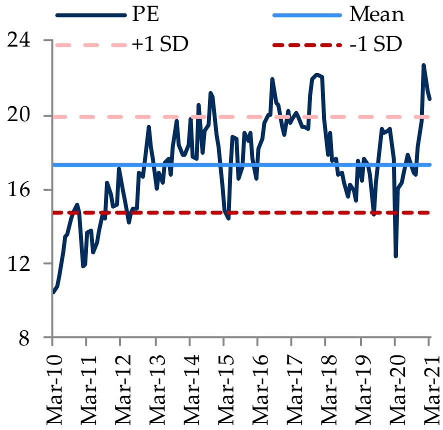
	Mcap (Rs bn)	CMP (Rs/sh)	Reco	TP (Rs)	Adj EPS (Rs/sh)			P/E (x)			RoE (%)			EV/EBITDA (x)			P/BV (x)		
					FY 21E	FY 22E	FY 23E	FY 21E	FY 22E	FY 23E	FY 21E	FY 22E	FY 23E	FY 21E	FY 22E	FY 23E	FY 21E	FY 22E	FY 23E
AUTOS																			
Ashok Leyland	347	118	REDUCE	97	0.1	3.8	5.2	871.8	31.0	22.6	0.5	14.7	18.3	49.4	18.0	13.5	4.8	4.4	3.9
Bajaj Auto	1,084	3,747	BUY	4,250	162.5	179.5	211.6	23.1	20.9	17.7	22.4	22.3	23.7	18.7	16.8	13.7	4.9	4.4	4.0
Eicher Motors	72	2,631	REDUCE	2,600	56.8	87.4	115.2	46.3	30.1	22.8	14.6	19.6	21.8	34.7	23.7	17.5	6.4	5.5	4.6
Escorts	156	1,273	ADD	1,480	76.7	82.3	92.6	16.6	15.5	13.7	17.9	14.9	14.6	10.3	9.4	7.8	2.5	2.2	1.9
Hero Motocorp	591	2,958	ADD	3,350	147.7	172.0	192.1	20.0	17.2	15.4	19.8	20.7	20.8	13.5	11.3	9.7	3.8	3.4	3.0
Mahindra	960	806	ADD	880	40.5	42.7	50.7	19.9	18.9	15.9	13.6	13.3	14.1	12.5	11.2	9.4	2.7	2.4	2.1
Maruti Suzuki	2,091	6,923	BUY	9,000	156.7	260.6	332.6	44.2	26.6	20.8	9.4	14.4	16.5	34.5	20.2	15.3	4.0	3.7	3.3
Tata Motors	1,107	308	BUY	315	(13.3)	3.3	14.0	(23.1)	93.4	21.9	(7.9)	2.0	8.1	6.2	4.9	4.1	1.9	1.9	1.7

Source: HSIE Research, CMP as of 1st Apr-21

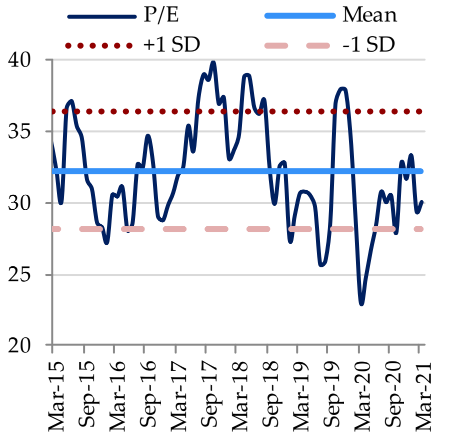
Ashok Leyland 1-yr forward EV/EBITDA



Bajaj Auto 1-yr forward P/E band

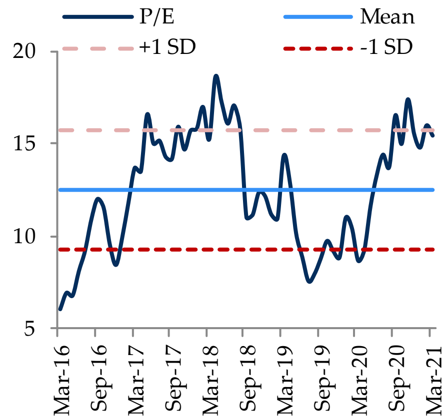


Eicher Motors 1-yr forward P/E band

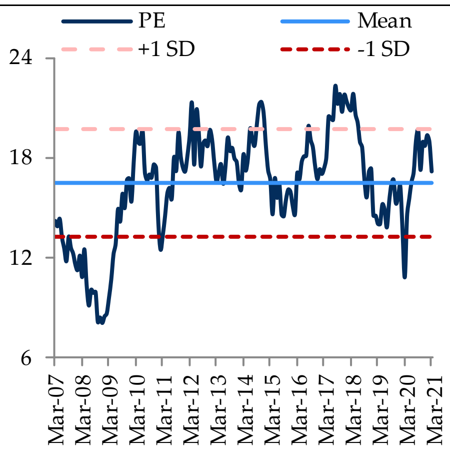


Source: Bloomberg, Company, HSIE Research

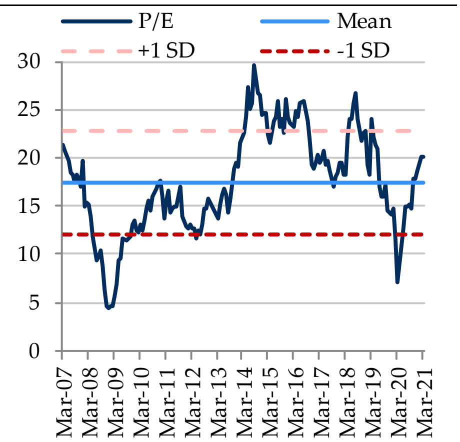
Escorts 1-yr forward P/E band



Hero Motocorp 1-yr forward P/E band

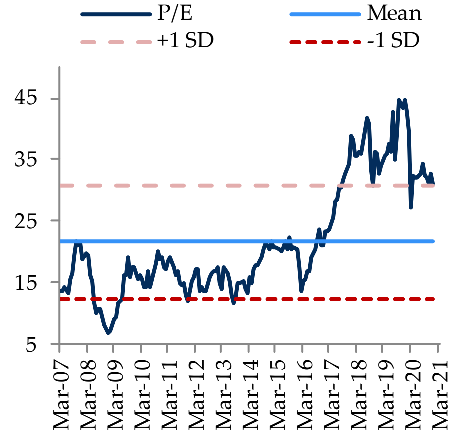


M&M 1-yr forward P/E band



Source: Bloomberg, Company, HSIE Research

Maruti Suzuki 1-yr forward P/E band



Source: Bloomberg, Company, HSIE Research

Rating Criteria
BUY: >+15% return potential
ADD: +5% to +15% return potential
REDUCE: -10% to +5% return potential
SELL: > 10% Downside return potential

Disclosure:
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