

Sector Thematic

Autos : Two wheelers

A changed landscape

The two-wheeler landscape has changed particularly for the global premium lifestyle biking category, which is witnessing multiple structural/cyclical headwinds. While near term demand will be impacted due to the COVID situation, longer term demand for cruiser bikes is stagnating due to changing consumer habits, which is prompting Harley Davidson to diversify beyond its traditional segment. We believe these factors will impact Eicher Motors' (REDUCE) export initiatives. Further, Royal Enfield's (RE) strategy of driving sales from Tier III/IV towns in India will be delayed at a time when demand in key southern states will be impacted due to falling remittances from overseas. In the mass market segment, we prefer Hero (BUY) due to the OEMs dominant market leadership in the entry/executive (Hero has 52% market share in the domestic motorbike segment). However, Bajaj (ADD) will be impacted by a weakening outlook for the high growth export markets, which account for almost half of its volumes.



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Autos

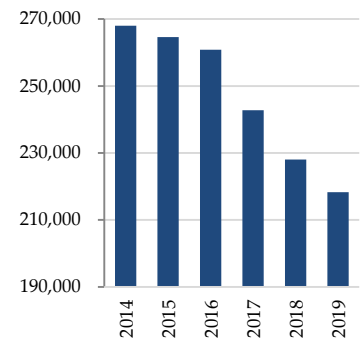
Two wheelers – A changed landscape

The two-wheeler landscape has changed particularly for the global premium lifestyle biking category, which is witnessing multiple structural/cyclical headwinds. While near term demand will be impacted due to the COVID situation, longer term demand for cruiser bikes is stagnating due to changing consumer habits, which is prompting Harley Davidson to diversify beyond its traditional segment. We believe these factors will impact Eicher Motors' (REDUCE) export initiatives. Further, Royal Enfield's (RE) strategy of driving sales from Tier III/IV towns in India will be delayed at a time when demand in key southern states will be impacted due to falling remittances from overseas. In the mass market segment, we prefer Hero (BUY) due to the OEMs dominant market leadership in the entry/executive (Hero has 52% market share in the domestic motorbike segment). However, Bajaj (ADD) will be impacted by a weakening outlook for the high growth export markets, which account for almost half of its volumes.

- Global Premium Biking category to witness multiple headwinds; to impact Royal Enfield:** As demand for premium bikes in mature markets, particularly the US has been falling, the world's foremost cruiser bike manufacturer – Harley Davidson is diversifying its product range to ADVs (Pan America 1250), Street fighters (Bronx) as well as to smaller powered sub 500cc bikes (HD 350). Exports is an emerging growth driver for Royal Enfield, with the contribution expected to rise to 10-20% of sales (from 6% currently). However, with changing consumer habits, rising competition in the global mid-size segment as well as a downturn in developed markets, export initiatives will be impacted, in our view.
- Domestic premium segment sales to be impacted:** We expect demand for luxury bikes (300cc+) to be affected as RE's traditional markets in southern India will be impacted by an expected decline in remittances from overseas. Further, the OEMs strategy to attract new customers from Tier III/IV centers will be delayed as customers postpone their decision to upgrade to higher powered bikes. Sales from these new format stores was expected to account for 6-7% of incremental volumes.
- Mass Segment –we prefer Hero Moto:** We expect Hero Motocorp to benefit from its domestic centric model (over 90% of its sales). We expect the share of entry segment bikes (currently at ~30% of the market) to rise further due to BSVI related price hikes as well as higher mix of rural sales, which will benefit Hero. While Bajaj has a diversified domestic portfolio, exports (~47% of volumes) will face headwinds. A significant portion of Bajaj's shipments are to frontier markets such as Africa, which are resource driven economies. Due to the correction in crude oil prices and the COVID impact, countries such as Nigeria are facing rising deficits. We expect exports to decline 10% in FY21E after growing at 16% CAGR over FY17-20.
- COVID - expect gradual scale up of operations:** OEMs have commenced limited operations in single shifts as they face restricted availability of labor as well as components. Dealers in large cities remain impacted by the red zone classification, while those in the semi urban markets are gradually opening up.

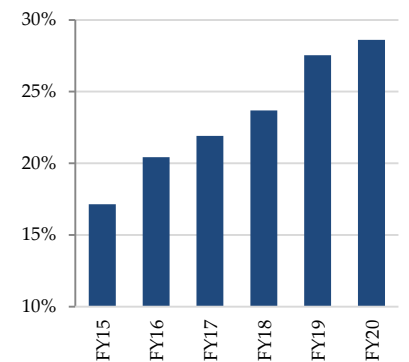
Company	Reco
Bajaj Auto	ADD
Eicher	REDUCE
Hero Motocorp	BUY

Global sales of Harley Davidson are declining (in units)



Source: Company, HSIE Research

Rising share of Economy Segment in 2W Bikes (%)



Source: Company, HSIE Research

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Exports market: A weakening outlook

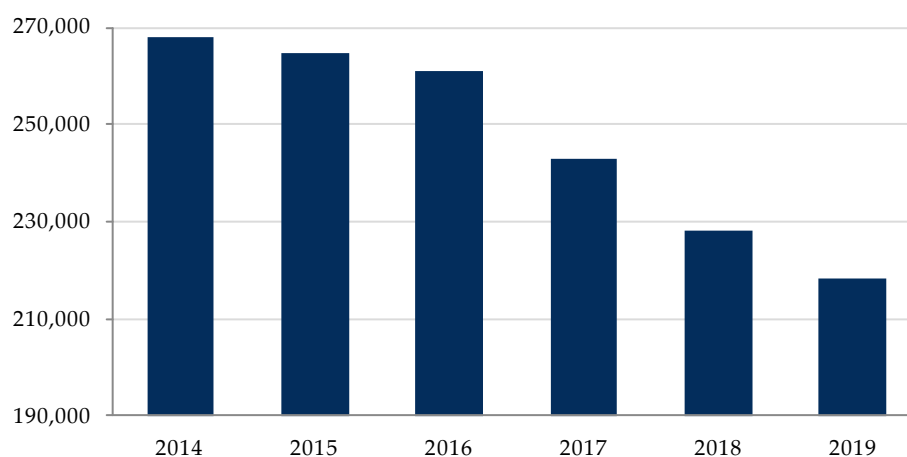
We believe that the global premium biking category will witness multiple headwinds, which will impact Eicher Motors (REDUCE) export initiatives. A weakening outlook for the high growth export markets, which now account for 18% of the industry volumes will be a headwind for Bajaj Auto (ADD).

Harley Davidson sales have been declining since CY14

Global Premium biking segment – Changing consumer habits

- The sales of the lifestyle biking leader, Harley Davidson have declined 5% in 2019 and have been falling steadily since CY14 as the demand for traditional cruising bikes has been receding in large markets such as USA.

Global sales of Harley Davidson were down 5% YoY in 2019 (in units)



Source: Company, HSIE Research

- The global market for luxury lifestyle bikes remains static at ~0.5mn and we expect sales to contract in CY20. We believe that demand for luxury bikes will be hit across geographies due to the challenging environment over CY21-22.

Annual Volumes for Lifestyle Biking OEMs (unit nos)

	CY18	CY19
Harley Davidson	228,051	218,273
Triumph	62,000	62,000

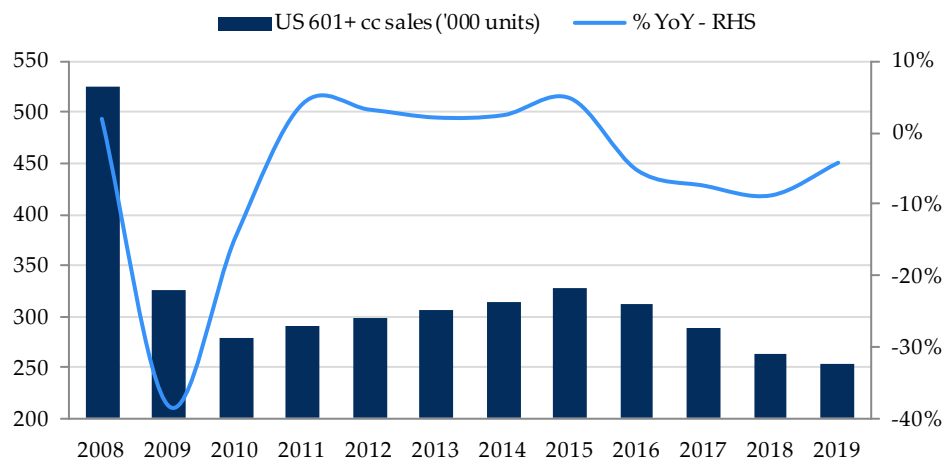
Source: Company, HSIE Research

The global market for luxury lifestyle bikes remains static at ~0.5mn

- **US Market is witnessing falling volumes since 2016:** In US, sales declined for the fourth year in a row in 2019 hitting the lowest level in a decade, declining 4% YoY. Sales declined across major brands including Harley-Davidson, Triumph and Ducati. The sales trends in USA have been weakening ever since the GFC crisis, with sales down by half as compared to '08.

USA 601cc+ Premium Motorcycle sales

In USA, sales declined across major brands including Harley-Davidson, Triumph and Ducati in 2019

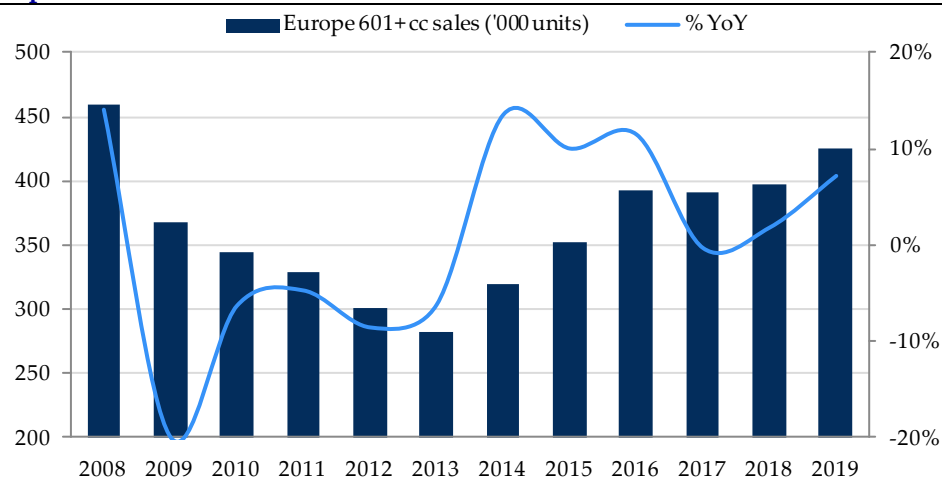


Source: Company, HSIE Research

- The European continent has fared relatively better in CY19, with sales up 8% YoY. However, the initial estimates for CY20 suggest that sales are likely to decline by over 20% due to the COVID outbreak.

Europe 601cc Motorbike Sales

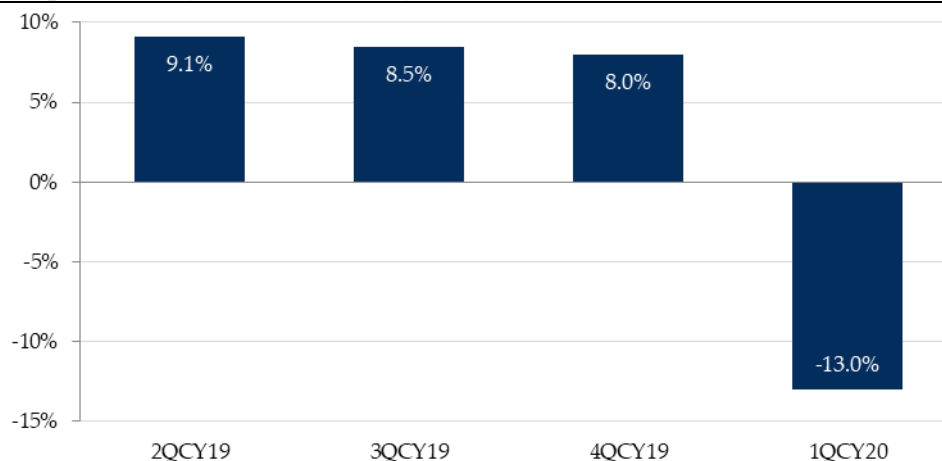
Large markets in Europe which include Italy and Spain, have been severely impacted by the COVID crises



Source: Industry, HSIE Research

- Already, demand is down 35% in March, which has resulted in sales in 1Q declining 13% YoY. The large markets in Europe which include Italy and Spain, have been severely impacted by the COVID crises. We believe a recovery in sales is expected to take longer in these markets.

Europe Quarterly Data for Motorcycles (% YoY)



Demand for luxury bikes will be impacted across geographies due to the challenging environment

Source: Industry, HSIE Research, Data is on YTD Basis

- HD reported a 17% YoY decline in volumes in 1Q. Within the international segment, Europe sales were down 28% and LATAM was down 22%. Currently, 55% of the international dealers have shut operations due to the COVID 19 issue. The company has suspended its guidance due to the outbreak of the COVID situation and has pushed back its new product rollout schedule.
- Harley management has highlighted that an important segment of its customers are from the oil belts in the southern US region. With the sharp fall in oil prices, they expect demand to be adversely impacted.

Harley Davidson Sales (in units)

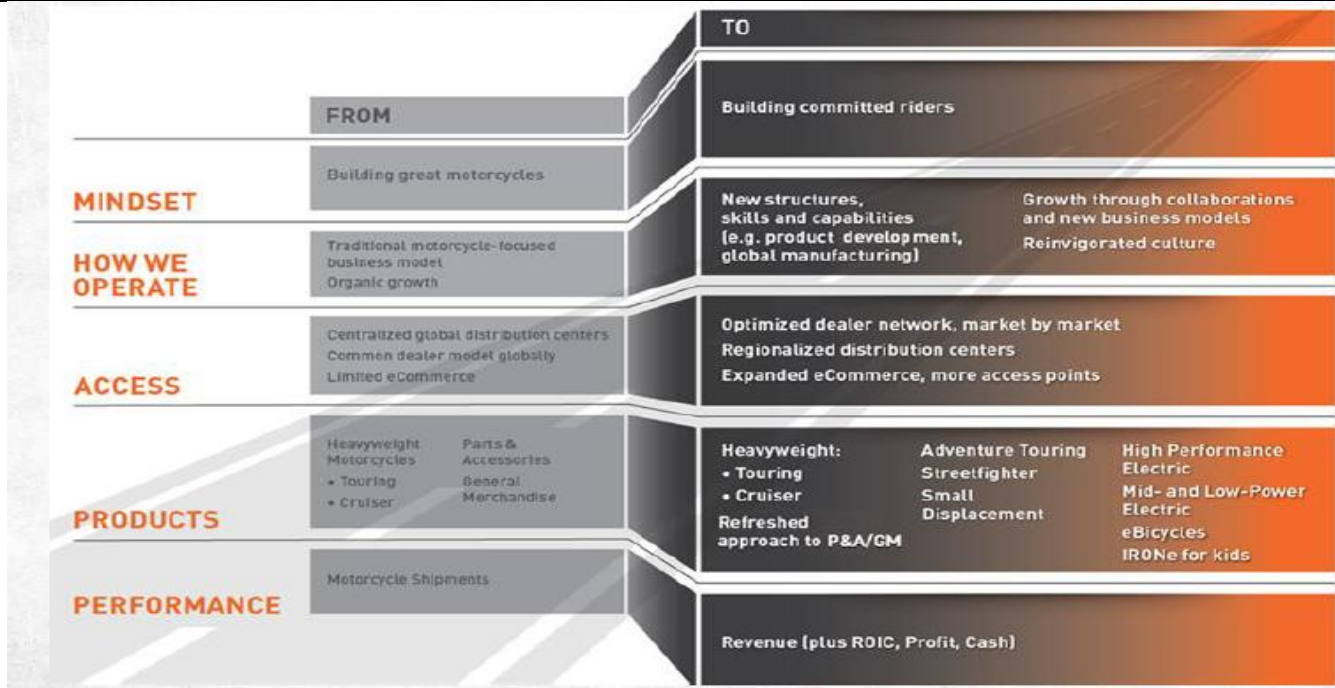
Motorcycles	1QCY20	% YoY
Worldwide	40,439	-17.7%
- US	23,732	-15.5%
- International	16,707	-20.7%

Source: Company, HSIE Research

Harley – Moving beyond cruisers:

- Harley-Davidson has been the leading cruiser bikes brand globally. However, the company has witnessed a global drop in sales of its products since the last few years as highlighted above. As the cruiser segment volumes are shrinking, especially with the millennial generation moving away from these bikes, Harley has decided to expand its product portfolio. It will now be venturing in the adventure touring space as well as launch street fighters, as the brand now seeks the favors of a new generation of riders.

Harley Davidson – More roads to Harley Davidson strategy



Source: Company, HSIE Research

- Harley to launch ADV/street fighter bikes:** Harley-Davidson is working on a ADV bike – the Pan America 1250, which is expected to be launched this year and a street fighter – the Bronx. It's the first time Harley-Davidson has designed models such as these and it heralds a changing mindset at the over 100-year-old company. The OEM intends to diversify its product mix over the medium term, with these initiatives.
- To compete effectively in the ADV segment,** the Pan America gets a high ground clearance, adjustable windscreen, wide handlebars and wire spoke rims with knobby tyres. The machine will be powered by a 1,250cc engine.

Harley – PAN AMERICA 1250 ADV



Source: Company, HSIE Research

- Harley has displayed first glimpses of the Bronx street fighter with Carbon-fiber fenders, TFT instrumentation and minimalistic angular bodywork. The aggressive styling is further accentuated with the stainless-steel exhaust amongst other features. These are a few of the design elements which give this 975cc bike the much-needed form factor.

Harley Davidson Bronx – ‘streetfighter’



Source: Company, HSIE Research

- Harley Davidson to launch sub 500cc bike:** Harley has already launched the 500cc Street bike in the world markets and they are now downsizing the product range further. Harley Davidson has partnered with Chinese motorcycle maker – Zhejiang Qianjiang Motorcycle. Together, the duo will launch a 338 cc motorcycle by end 2020. This motorcycle will first be launched in China, followed by other Asian markets. The new Harley Davidson 338 cc motorcycle could be christened the Harley Davidson Street 350 and will be positioned below the Street 500 and Street 750 in the company line-up. The Street series is a successful range for Harley Davidson.
- Competition is rising internationally in the mid-size lifestyle biking segment:** The stagnating demand for lifestyle bikes in the West is forcing ‘legacy’ brands to search for younger riders in developed economies as well as for new customers in EMs. Both Harley Davidson and Triumph have announced partnerships to produce smaller sized 300cc-750cc bikes. We believe that competition will structurally increase over the medium term. Eicher Motors will face rising competition from global majors including Harley Davidson, Triumph (along with Bajaj) and the M&M backed Jawa Motorcycles. We have highlighted in our initiation report on Eicher Motors – [Legacy Wars](#) that globally two wheeler sales have been static especially in the mature western markets.

Harley Davidson has launched 500cc bike and is now downsizing the product range further

Triumph is expanding into emerging markets including India. The pricing of the product in India will be under Rs 200,000, ensuring that the model competes with Royal Enfield

Bajaj Triumph have finalized their partnership for mid-sized bikes (200-750cc) in CY19

- **Bajaj to manufacture bikes for Triumph:** Bajaj will produce mid-sized bikes (200cc-750cc) for Triumph's international markets including India. The two OEMs are building a new vehicle platform and the bikes will be produced from the Chakan facility from 2022 onwards. However, there is no equity partnership between the two.
- **Triumph to expand into Emerging markets, new riders in the European markets:** With the new range, Triumph is expanding into emerging markets including India. Further, the new range will be launched in the mature European markets to appeal to new riders. The pricing of the product in India will be under Rs.200,000 – ensuring that the model competes with Royal Enfield (Classic pricing starts at Rs. 165,000).
- In most geographies (particularly in Western countries), Triumph will sell the bikes through their existing network. The Triumph distribution in India will be now taken over by Bajaj Auto, where the entire product range will be sold (similar to the KTM arrangement).

TVS Motors – Norton Acquisition

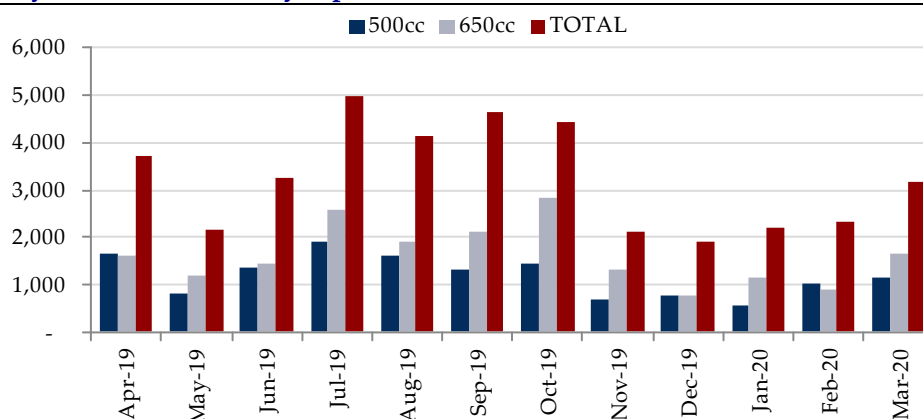
- TVS Motor acquired British motorcycle OEM 'Norton Motorcycle' for a cash deal of ~Rs 1.5bn. The acquisition includes Norton's manufacturing facility and brands. In FY19, the sales of Norton were around GBP 7mn (~Rs 700mn).
- Norton manufactures & sells products in the range of 800cc to 1200cc across 21 countries and competes with Harley-Davidson, MV Agusta, etc. Currently, Norton has been struggling with intense competition from global players, which has resulted in the sale.
- The initial focus of TVS will be on strengthening the existing presence of Norton in global markets. Subsequently, TVS might introduce the brand in the Indian market along with lower powered products.

Royal Enfield's Export initiatives will take longer to fructify due to rising competition globally in the mid-size segment as well as with a downturn in developed markets

Amidst this challenging environment, Eicher's export initiatives to be impacted:

- Despite a tepid market for lifestyle bikes, Eicher hopes to make inroads with its mid-sized lifestyle bikes across the mature US and European markets. The Twins have received an encouraging initial response, albeit on a small base. The annual exports of RE is now ~ 40K units – which is ~6% of sales.

Royal Enfield – Monthly exports (unit nos)

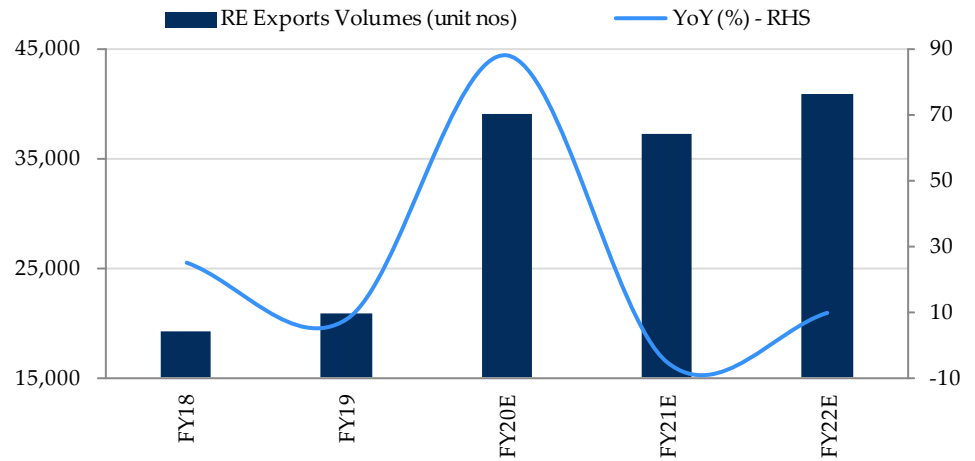


Source: SIAM, Company, HSIE Research

- While we were banking on growth in export markets to offset some of the demand pressures in the home segment, the forecasts will now be recalibrated downwards. Further, exports is a medium term driver for the stock, with the contribution from the same expected to rise to 10-20% of sales. However, with rising competition globally in the mid size segment as well as with a downturn in developed markets, we believe that export initiatives will take longer to fructify.

We are building in a 10% YoY decline in Royal Enfield's exports in FY21

Royal Enfield export volumes



Source: Company, HSIE Research

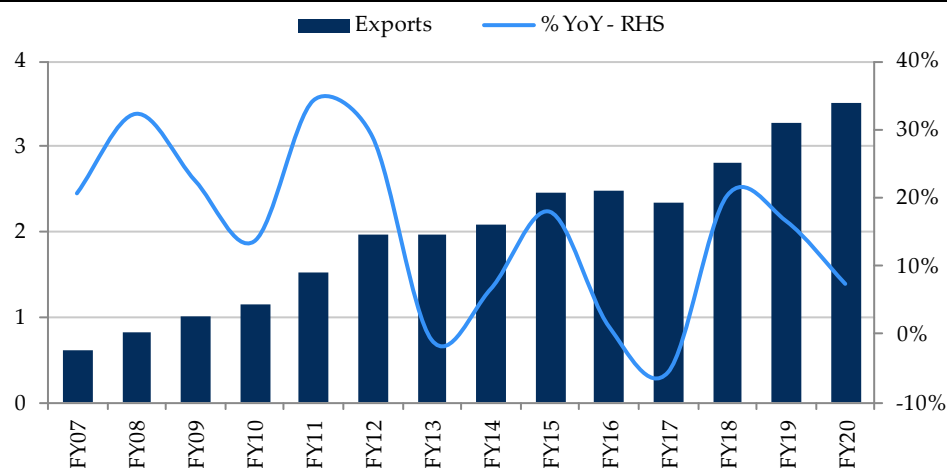
Industry exports are at 3.5mn units in FY20, accounting for 17% of the industry volumes

Export cycles are uneven as a significant portion of shipments are to frontier markets, which have their own share of challenges

Mass market export outlook: Weak oil, weakening economies:

- **Industry Exports have grown at 14% CAGR:** Export volumes have risen from 0.6mn units in FY07 to 3.5mn units in F20. A significant growth market for the motorbikes is Africa followed by South Asia and LATAM geographies. Exports to the developed markets are minimal as these are largely premium markets (above 500cc).
- However, the growth has been volatile, with phases of underperformance. Sales had weakened in FY13-14 and in FY16-17. The export cycles are uneven as a significant portion of shipments are to frontier markets such as Africa, which have their own share of challenges.

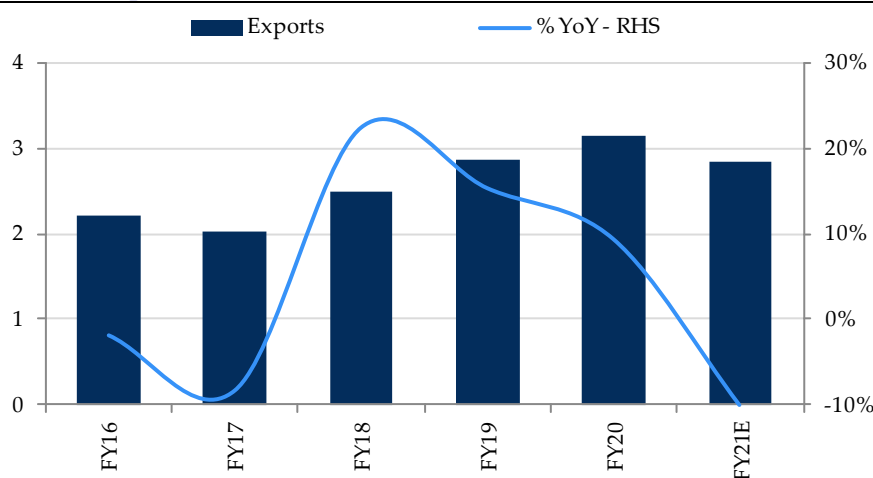
India two-wheeler exports (in mn)



Source: SIAM, HSIE Research

- The industry two-wheeler exports has witnessed healthy growth in the past three years, growing at 15% CAGR over FY17-20. Sales growth has been led by rising contribution to Africa, where the economies benefited from higher oil prices. Crude oil prices remained above \$65/bbl through FY19 and most of FY20 as well, which drove economic growth in many international markets. Improved foreign exchange availability in Africa further aided the growth of exports coupled with growth in other countries.

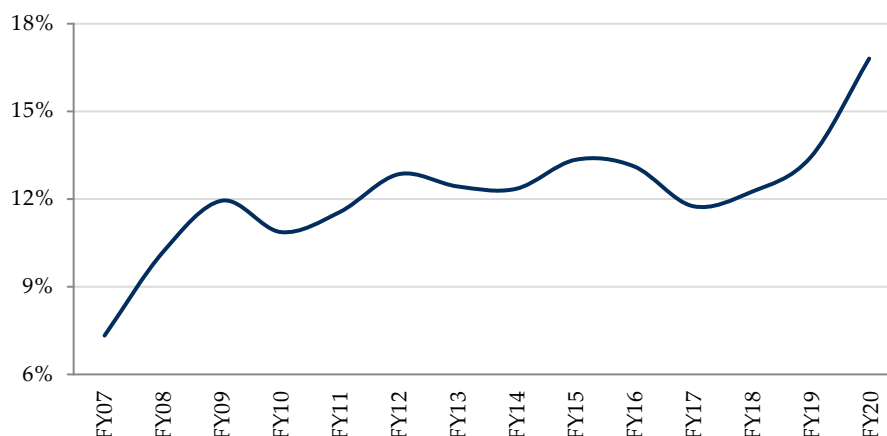
Two-wheeler exports outlook (in mn)



Source: SIAM, HSIE Research

- Exports have also derisked the industry from the local cycles. Currently, exports account for 17% of the total industry as compared to 7% in FY07.

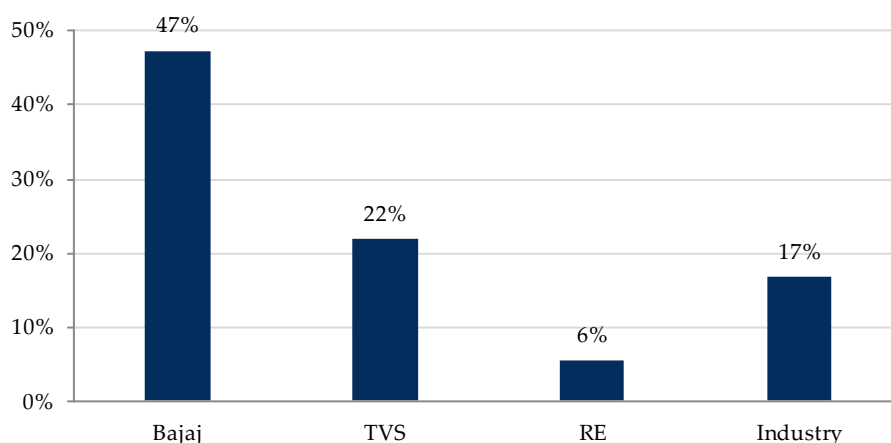
Exports as % of total Industry Sales over FY07-20



Source: SIAM, HSIE Research

- The industry growth in exports has been driven by Bajaj Auto and TVS Motors, which have forayed aggressively into overseas markets – in order to broad base away from local competition from Hero and Honda.

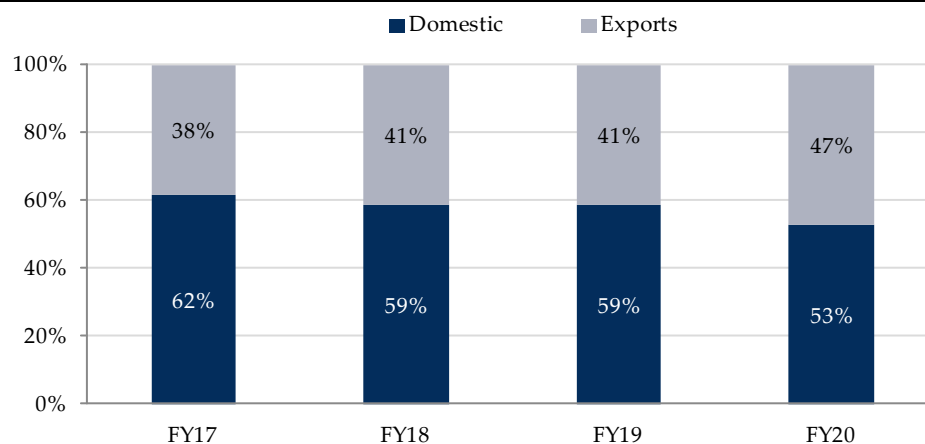
Exports as % of total Sales for Indian OEMs as of FY20



Source: SIAM, Company, HSIE Research

- Bajaj Auto now derives over 45% of its volumes from exports and has diversified its business model.

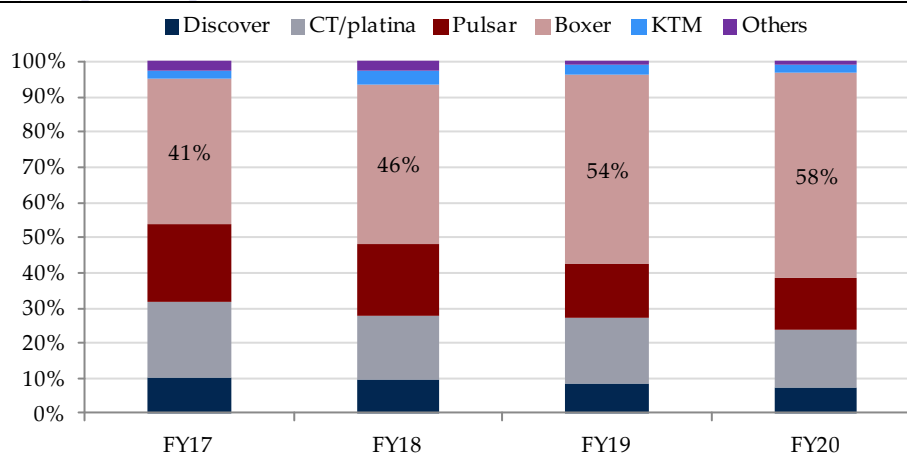
Bajaj – Exports as % of total volumes



Source: Company, HSIE Research

- **Bajaj has benefitted from the uptrend in exports** over the past three years as it is amongst the leading OEMs (top 3 by market share) in several countries in Africa. The share of Boxer bikes (used as bike taxi's) now accounts for over 50% of Bajaj's total exports.

Bajaj's export composition (Brand-wise)

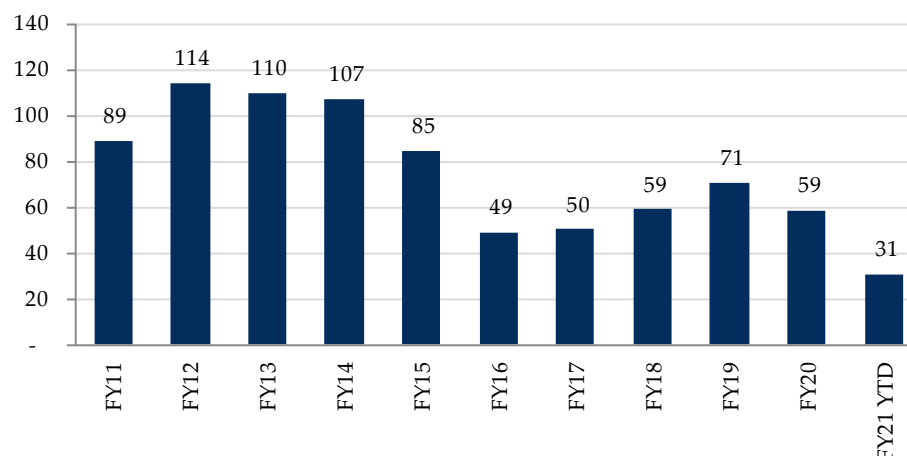


Share of Boxer bikes (used as bike taxi's) accounts for over 50% of Bajaj's total exports

Source: SIAM, Company, HSIE Research

- **However, oil prices have corrected sharply, which will impact the rising trend of past few years.** As highlighted above, these frontier markets are typically commodity intensive and derive substantial portion of their revenues from oil.

Brent Crude Prices (in \$/bbl)

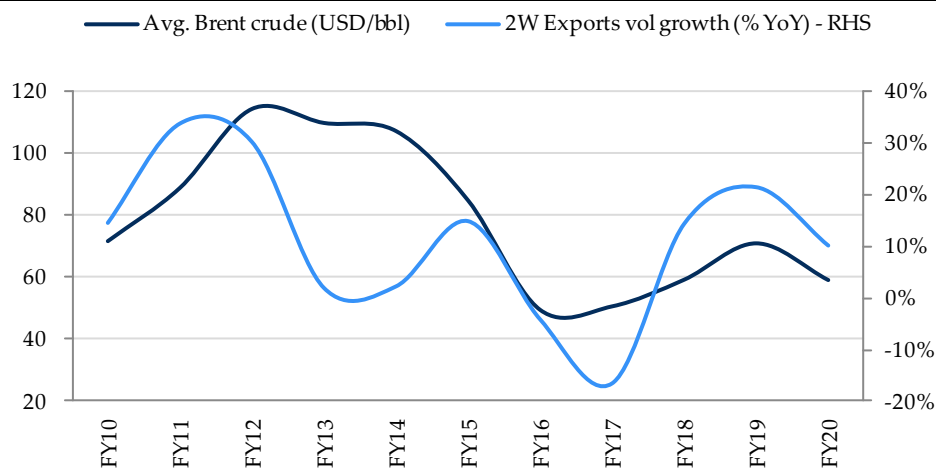


Source: Industry, HSIE Research

- **Nigeria has requested a bail out; which is Bajaj Autos largest export market:** Nigeria's economy has been affected by the Coronavirus pandemic and the oil price crash. Africa's biggest crude producer has warned of an imminent recession and has requested \$7bn in emergency funding. The finance minister has flagged that Nigeria would fall into its second recession in five years if action was not taken to cushion the economic impact. The FM has estimated that the economy could shrink as much as 3.4% this year without a stimulus plan. The warning has come as the IMF began considering Nigeria's request for \$3.4bn grant.

The Nigerian economy is expected to witness headwinds due to the current environment

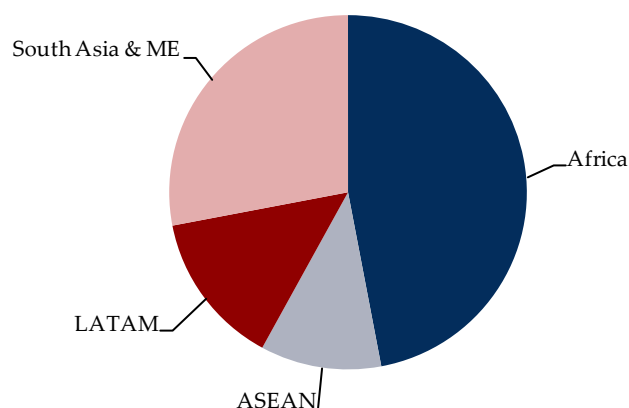
Bajaj exports growth and Crude price



Source: Industry, Company, HSIE Research

- Nigeria accounts for ~25% of overall exports for Bajaj. If oil prices were to remain weak over a longer period of time, the exports of Bajaj Auto would be at risk.

Bajaj's Export Composition



Source: Industry, Company, HSIE Research

- We expect sales for Bajaj's exports to decline 10% in FY21E after witnessing healthy growth over the past 3 years.

Volume assumption (in units)	FY18	FY19	FY20E	FY21E	FY22E
Motorcycles					
Exports	13,94,757	16,95,553	18,69,220	16,82,298	18,00,059
% YoY	14.5	21.6	10.2	(10.0)	7.0

Source: Company, HSIE Research

After three years of double digit growth in exports, we expect sales for Bajaj to decline in FY21E

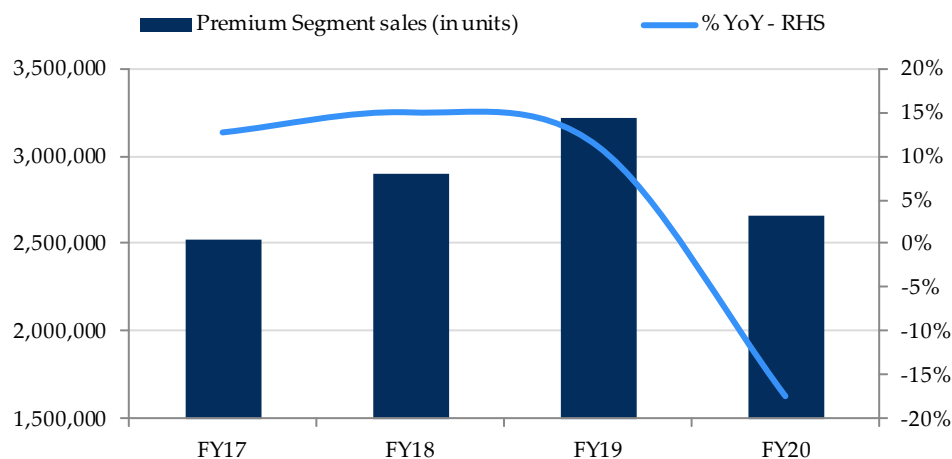
Domestic market outlook

Premium segment to be impacted

- Overall Premium segment sales declined 17% in FY20: The premium segment has witnessed strong growth over FY16-19, with growth rates in double digits. However, sales fell by ~17% in FY20 due to the slowing economy as well as price hikes due to regulatory/insurance related increases.

Sales of overall Premium segment Motorbikes

Premium segment sales fell by ~17% in FY20 due to the slowing economy as well as price hikes due to regulatory /insurance related price increases

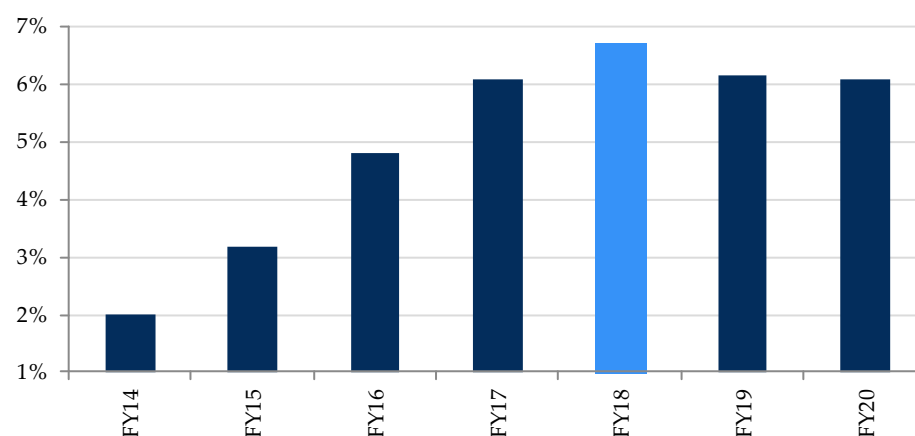


Source: SIAM, Company, HSIE Research

- Super Premium segment had benefitted from strong growth over FY14-18 as customers steadily upgraded from their 100/150cc bikes to Royal Enfield's 350cc cruisers. Consequently, the share of RE reached 7% of the overall motorbike industry as compared to just 2% in FY14. In fact, the state wise analysis reflected that the RE penetration had reached over 20% in regions such as Delhi and Kerala in 2018, however....

Super Premium segment had benefitted from strong growth over FY14-18 as customers steadily upgraded from their 100/150cc bikes to Royal Enfield's 350cc cruisers

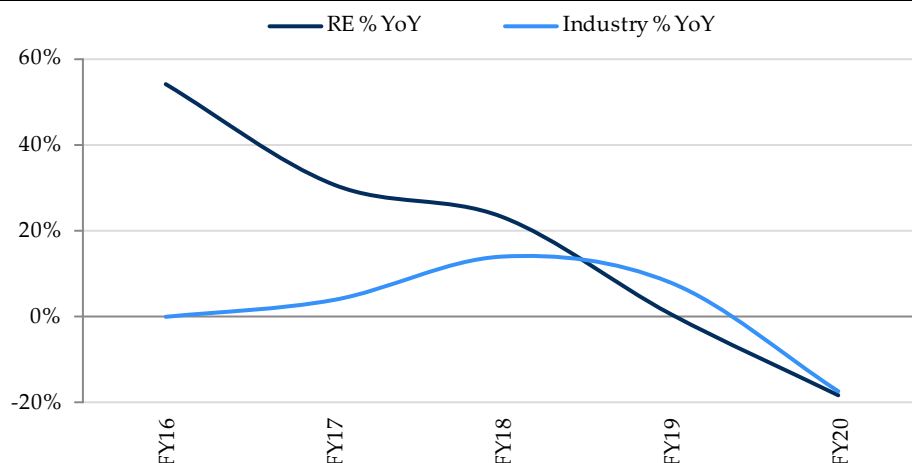
Share of Super Premium segment (%)



Source: SIAM, Company, HSIE Research

- ... sales for Royal Enfield moderated sharply over FY19-20. RE sales were flat in FY19 and declined 18% in FY20, as demand in the mature markets started easing (Punjab, Delhi, etc). We had highlighted that growth for RE will now come from underpenetrated northern states and we believed that growth rates for RE will normalize, closer to that of industry. Please see our initiation note: [Legacy Wars](#). The slowdown in large states, price hikes driven by regulatory factors and increase in road taxes affected growth. A high base effect as well as the impact of the economic downturn has impacted sales further.

Royal Enfield and Industry Sales Growth (%)



Source: SIAM, Company, HSIE Research

Bajaj Auto introduced the Pulsar 125cc as the customers were expected to shift to lower priced products

- Even prior to the COVID outbreak, OEMs were launching lower powered variants to cope with the BSVI related price hike. To this effect, Bajaj Auto has launched the Pulsar 125cc bike in 3QFY19, ahead of the emissions rollover, which is at a significantly lower price point (20% cheaper) as compared to its larger 150cc sibling.

Bajaj Pulsar Variants

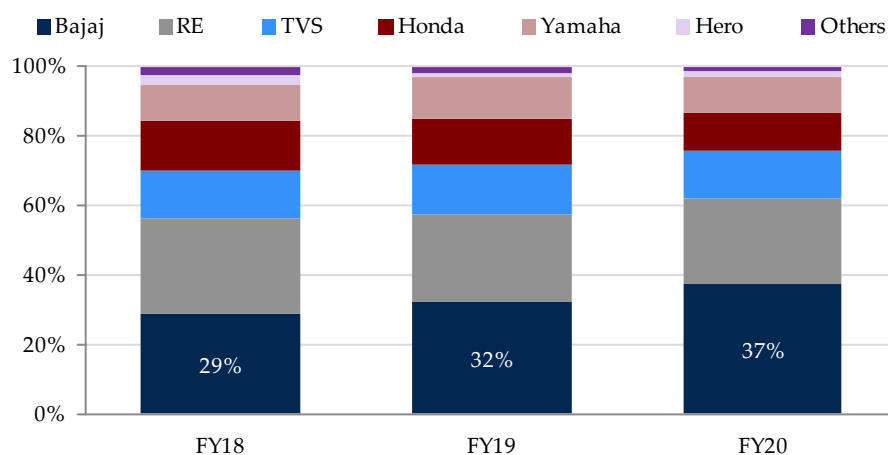
Variant	Price (Ex showroom Delhi)
Pulsar 125cc	Rs 69,997
Pulsar 150cc Neon	Rs 85,536
Pulsar 160 NS	Rs 103,398
Pulsar 220F	Rs 117,286

Source: Company, HSIE Research

- Consequently, Bajaj's sales in the Premium category have declined by just 5% YoY in FY20 vs. a decline of 17% for the broader category. Amongst the other large competitors in this segment, Royal Enfield witnessed a decline of 18% while TVS Motors sales fell 22%.
- The share of Bajaj in the overall premium segment has increased to 37% of sales (up from 29% in FY18) while that of Royal Enfield declined to 25% in FY20 (from 28% in FY18).

Bajaj has gained market share in the premium segment

Share of OEMs in the Premium segment

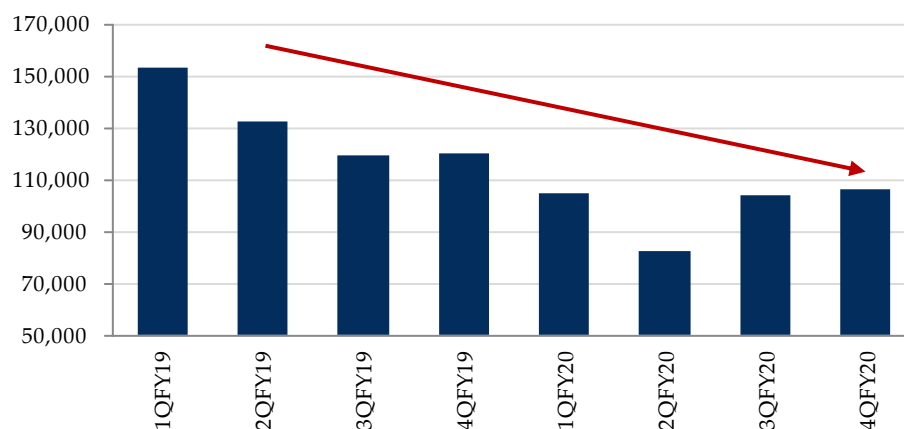


Source: SIAM, Company, HSIE Research

- Royal Enfield's entry strategy to revive sales:** As demand for the mainstay 'Classic' started declining due to sales 'fatigue' from mid FY19 onwards, RE has embarked on new strategies to revive sales, including launching small format stores as well as introducing entry variants of its 350cc models.

RE Classic 350cc Quarterly Sales

RE has embarked on new strategies to revive sales



Source:: SIAM, Company, HSIE Research

Royal Enfield is banking on consumers from the small format stores to drive growth as sales

Customers likely to postpone uptrading in semi-rural markets

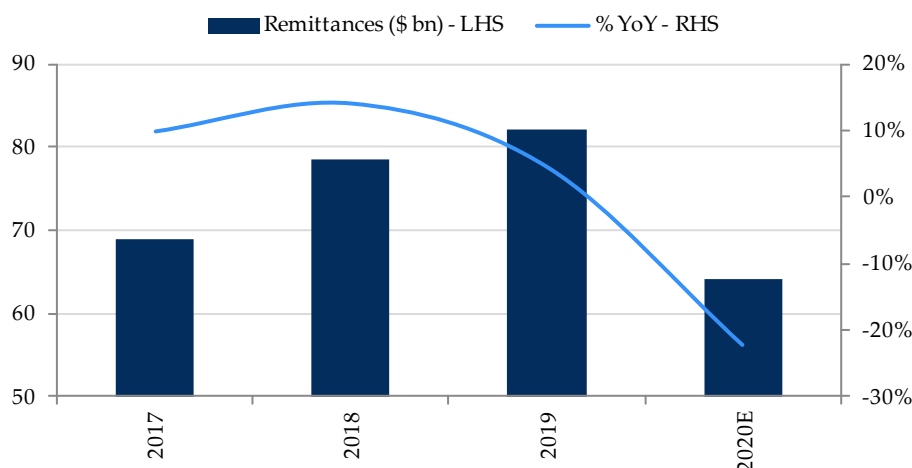
The motorbike prices have risen by ~20% due to the impact of safety regulations including ABS, insurance costs, emission rollover, amongst others

- Royal Enfield introduced small format stores to attract consumers from semi urban/rural India as the product is perceived as an 'aspirational' purchase in smaller towns.** RE was banking on these consumers to drive growth as sales in the mature markets i.e. big cities and richer states (see our initiation report) have been stagnating. Incremental growth was expected from new markets in the north India including Uttar Pradesh, Bihar, etc.
- Under the new management of Mr. Dasari, the OEM has opened ~500 Studio Stores across India in CY19, as RE believes that focusing on smaller towns is the way forward.** Until now, Royal Enfield was primarily focused on large format stores and had ~950 such stores in the country.
- The average size of these small format stores is around 500sq ft (225 sqft of retail space and 275 sqft of service facility) with the breakeven point at below 10 bikes a month. These stores are expected to bring in an incremental 3,500 to 4,000 units a month, which is ~6-7% of monthly sales.** The management was planning to expand these stores further in the hinterland of the country.
- Entry level variants:** Further, RE has launched entry variants of the Classic 350, the Classic S and similarly the Bullet X. These models are ~Rs 10,000 lower than the regular variants and were introduced to partially offset the impact of price hikes, similar to the strategy adopted by other OEMs. The product prices have risen by ~20% due to the impact of safety regulations including ABS, insurance costs, emission rollover, amongst others.
- However, Royal Enfield's new strategy of driving sales from Tier III centers will be impacted in our view.** A majority of their customers are those who uptrade from 100cc/125cc motorcycles to the cruiser segment. We believe that as economic activity is impacted, customers in semi-rural areas will postpone their purchase decision of these luxury products. In our conversation with the industry participants, they expect consumers to downtrade towards the executive/entry segment bikes.

We expect remittances to decline in FY21

- Traditional markets such as Kerala are likely to be impacted due to the fall in overseas remittances, post the COVID situation. Due to the weak economic environment in the Gulf region, where nearly 10 million Indians work in unskilled or semi-skilled workers, overseas inflows are expected to slow down by -22% YoY to \$64 bn in 2020. Every fifth house in Kerala comprises of persons who have migrated to the Gulf. Their remittances, which crossed ₹1 trillion in 2019, make up 36% of Kerala's gross state domestic product. Thus, demand for discretionary products will be impacted further in this important southern market.

Overseas remittances to India (\$ bn)



Source: Industry, HSIE Research

RE volumes are expected to decline due to multiple headwinds across domestic and export markets

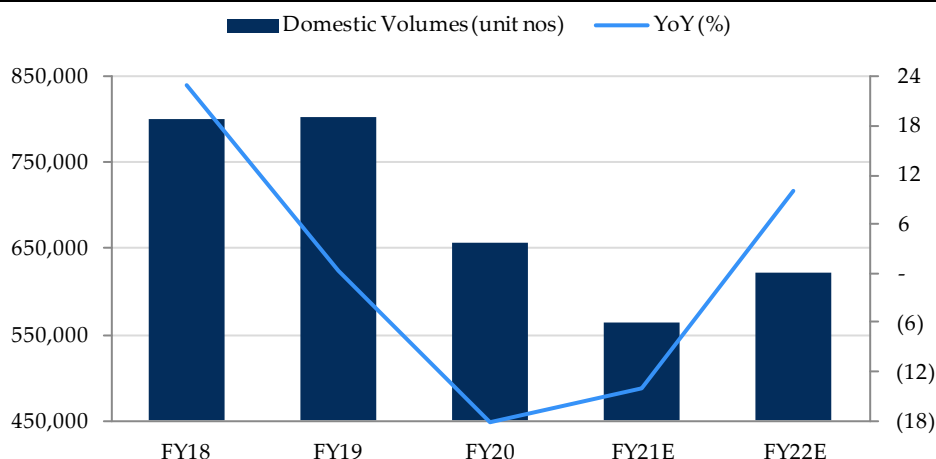
- We have already witnessed sales for RE declining along with that of the broader industry over FY19-20 as consumers have been impacted by the aggressive price hikes.

RE Volume Assumptions

in units	FY18	FY19	FY20E	FY21E	FY22E
Domestic	8,01,229	8,03,003	6,56,651	5,64,720	6,21,192
% YoY	23.1	0.2	(18.2)	(14.0)	10.0
Exports	19,264	20,825	39,188	37,229	40,951
% YoY	25.2	8.1	88.2	(5.0)	10.0
Total RE	8,20,493	8,23,828	6,95,839	6,01,948	6,62,143
% YoY	23.1	0.4	(15.5)	(13.5)	10.0

Source: Company, HSIE Research

Royal Enfield volumes forecast



We expect sales to be further impacted in FY21.

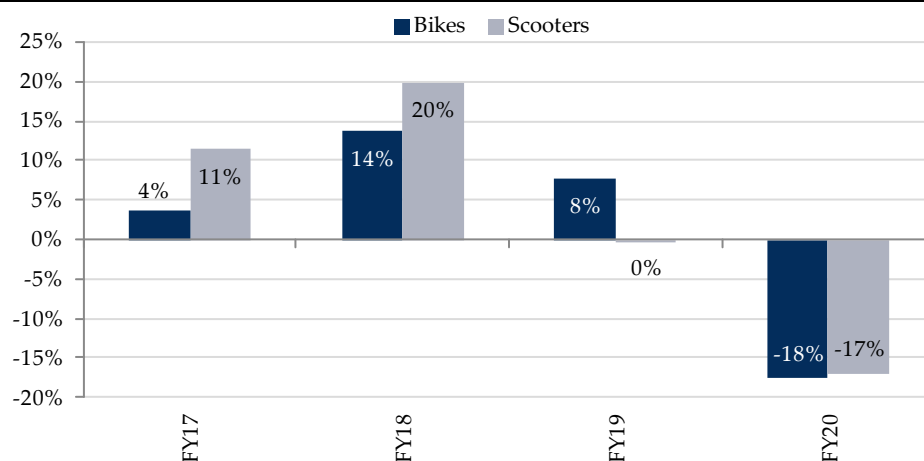
Source: Company, HSIE Research

Two-wheeler domestic mass segment outlook:

- While the demand in the overall segment will be impacted in FY21, the decline in sales is expected to be higher in metro areas as the cities are witnessing a larger impact due to the virus, while sales in the rural segments will be relatively less impacted as agri activity continues.
- We have already witnessed that growth rates for scooters, which are more urban centric products, have started declining since FY19. Scooter sales came off in FY19 (flat YoY) and declined 18% YoY in FY20. However, motorbikes have fared relatively better as sales were up 8% YoY in FY19 before declining in FY20 due to their more semi-rural tilt.

Decline in sales is expected to be higher in metro areas

Domestic scooter and motorbike growth %



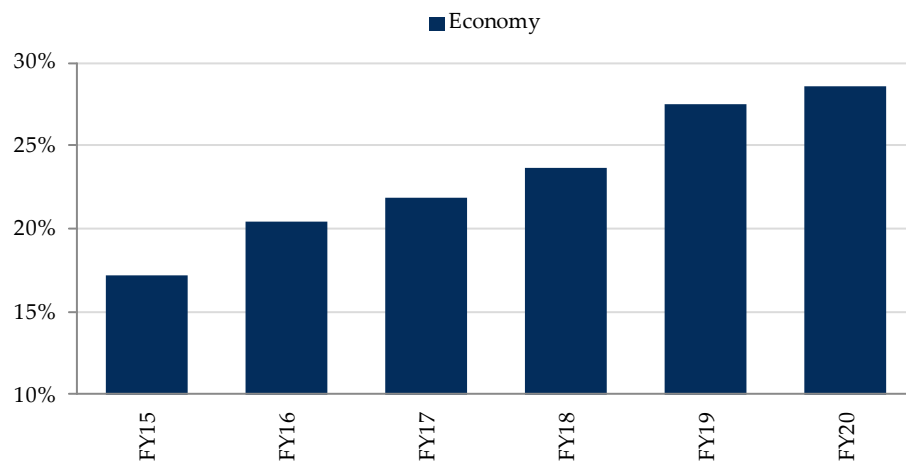
Source: SIAM, HSIE Research

Entry Segment to benefit:

- Over the past few years, the share of entry level bikes has risen in the overall motorbike sales mix and now accounts for ~30% of the market. The share of entry segment bikes has risen due to various factors including introduction of aggressively priced models such as the CT100, higher demand in rural areas, amongst others.

Share of entry level bikes has risen in the overall motorbike sales mix and now accounts for ~30% of the market

Rising share of Economy Segment Motorbikes in overall Sales Mix (%)

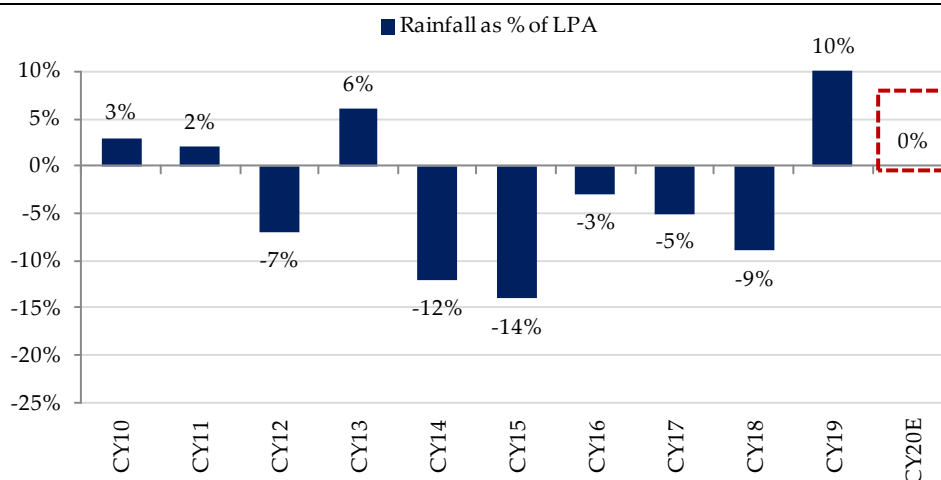


Source: SIAM, HSIE Research

Initial forecasts in FY21 suggest that monsoons will be normal. Agri production will benefit in the current year with normal rainfalls likely for two consecutive years

- Agri economy to be supported by normal monsoons:** The agri economy benefitted from normal rainfall in FY20 (rains were at 110% of LPA). Further, initial forecasts in FY21 suggest that monsoons will be normal as well - in its first long-range forecast for Southwest Monsoon 2020, the India Meteorological Department (IMD) has predicted a normal season with rainfall at 100% of the Long Period Average (LPA). This will be beneficial for agri production in the current year with good rainfalls likely for two consecutive years. Further, we believe that the governments focus on agriculture and rural economy will continue. This will cushion the fall for the mass segment products, in our view.

Annual rainfall as % of LPA



Source: GoI, HSIE Research

Rural Benefits from Government of India

Rs bn	2018-2019	2019-2020	2020-2021
	A	RE	BE
Pradhan Mantri Kisan Samman Nidhi (PM-Kisan)	12	544	750
Mahatma Gandhi National Rural Employment Guarantee Program	618	710	615
Pradhan Mantri Awas Yojna (PMAY)	254	253	275
Interest Subsidy for Short Term Credit to Farmers	115	179	212
Pradhan Mantri Gram Sadak Yojna	154	141	195
Crop Insurance Scheme	119	136	157
Pradhan Mantri Krishi Sinchai Yojna	81	79	111
Swachh Bharat Mission (Gramin)	129	83	100
Deen Dayal Upadhyaya Gram Jyoti Yojna	32	37	11
Pradhan Mantri Kisan Sampada	6	9	11
	1,522	2,171	2,437

Source: GoI, HSIE Research

- Further, as BSVI related price hikes are in excess of 10%, the entry level bikes will benefit in our view.

Product Prices post BSVI – Increase of 15%

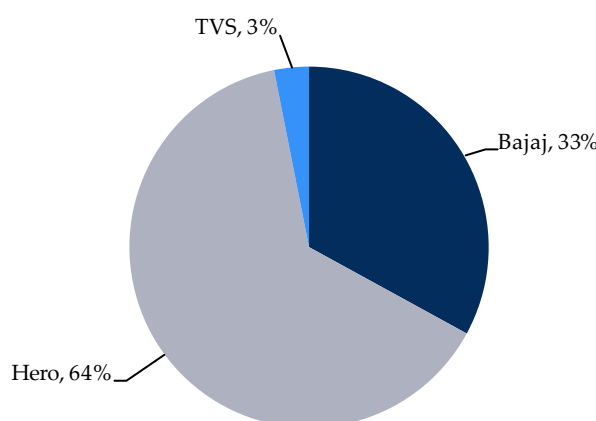
Ex Showroom Delhi (Rs)	BSIV	BSVI	% Increase
Hero HF Deluxe	48,575	56,675	17%
Hero Splendor	52,500	60,350	15%

Source: Company, HSIE Research

Product prices have risen by 15% post the emission roll over

- The management of Hero Moto highlights that as incomes are impacted post the COVID outbreak, consumers are expected to purchase entry level variants. We believe that Hero will benefit as it dominates this segment with c. two thirds market share.

Motorbikes - Entry Level market share (%)

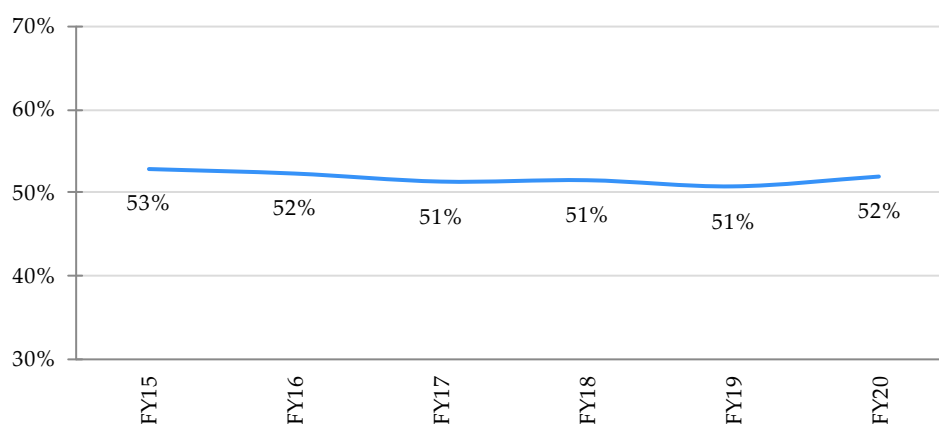


Source: SIAM, Company, HSIE Research

- Hero has sustained its elevated market share in the domestic motorbike market over the past several years. The OEMs dominant positioning in the entry and executive segments has contributed to the same. Further, Hero derives almost half of its volumes from the rural segment. This segment has benefitted from sustained government support and under penetration.

Hero Motocorp has sustained its market share in the domestic motorbike market at above 50% over the past several years

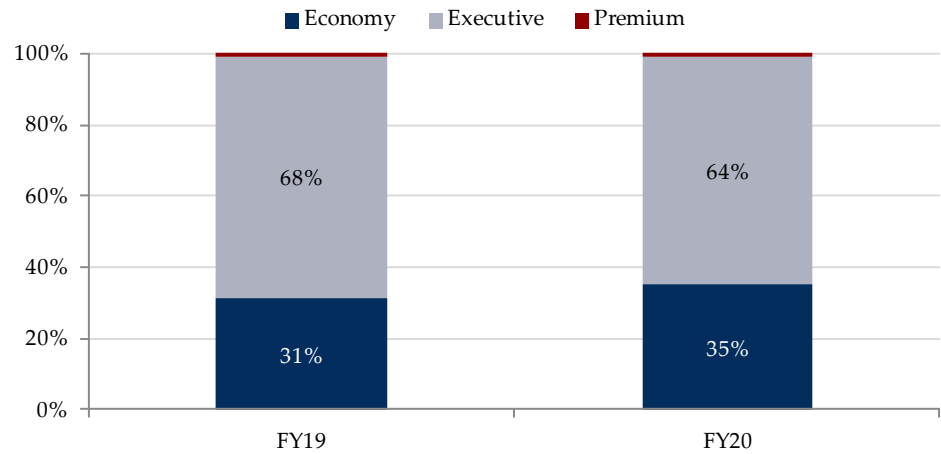
Hero Moto Motorbikes – Market Share (%)



Source: SIAM, Company, HSIE Research

- Hero derives its volumes from the executive and economy segment with nominal contribution from the premium segment.

Hero – Sales Mix comprised of entry/executive segment

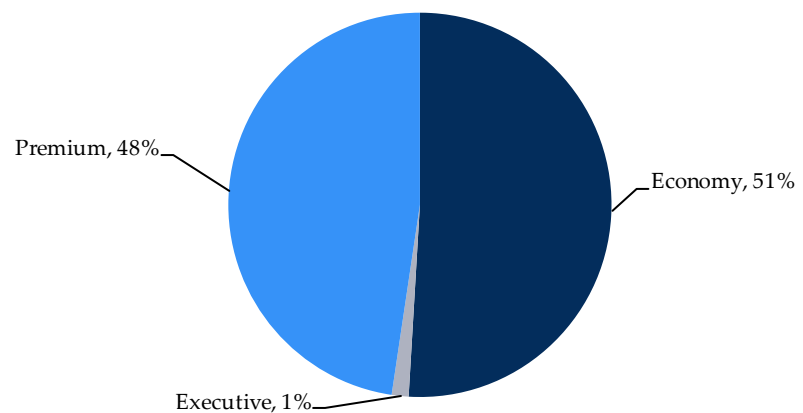


Source: SIAM, Company, HSIE Research

Bajaj's dependence on the domestic segment is restricted to 53% of its volumes in FY20, with exports accounting for the rest.

- Bajaj Auto also derives half of its domestic volumes from the economy segment with premium bikes accounting for the balance. However, Bajaj's dependence on the domestic segment is restricted to 53% of its volumes in FY20, with exports accounting for the rest.

Bajaj Auto Domestic Product mix (%)



Source: SIAM, Company, HSIE Research

COVID – Expect gradual resumption of operations

As OEMs gradually commence operations, we interacted with industry personnel to understand the on ground reality. Most auto plants will operate in single shifts and are awaiting more clarity from the government. The managements have highlighted difficulties in commencing operations due to restricted availability of labor as well as components.

OEMs to gradually restart operations:

- The OEMs are now gradually commencing production, albeit at an extremely slow pace. They are facing difficulties at the plants as several states have restrictive rules in place, which makes transporting the labour work force difficult.
- Hero Motocorp has commenced operations in three of its manufacturing plants – Gurugram and Dharuhera (both in Haryana), Haridwar (Uttarakhand). The Company's R&D facility – the Centre of Innovation and Technology (CIT) – has also received the necessary permission to reopen and will resume functioning soon.
- Bajaj Auto has factories in both Maharashtra and Uttarakhand. According to Rajiv Bajaj, things are much smoother and efficient in the northern state.
- Maruti Suzuki announced that it would restart production on 12th May at its Manesar facility.
- Hyundai has resumed production and the management intends to move into the second shift after 18th May.
- Escorts has received permission from government authorities to resume its operations in single shift at all its plants at Faridabad for the predefined workforce.
- Components manufacturers are also working towards restarting their factories. However, there have been hindrances in getting approvals especially in states like Maharashtra and Tamil Nadu.

Table: OEM Plant Status

OEM	Recommence operations on	Plants
Bajaj Auto	Last Week	Chakan, Waluj, Uttaranchal
Hero Motocorp	Last Week	Gurugram, Dharuhera, Haridwar
Eicher Motors	Last Week	Tamil Nadu
Escorts	Last Week	Faridabad
Hyundai	Last Week	Tamil Nadu
Maruti Suzuki	12 th May	Gurgaon and Manesar
Toyota	Last Week	Bangalore

Source: Companies, HSIE Research

Dealerships:

- Dealers in large cities remain impacted by the red zone classification, while those in the semi urban markets are gradually opening up.
- Several dealers we spoke with highlighted that they are opening the service workshops in the initial phase and will commence new vehicles sales towards the month end.
- Hero Motocorp stated that with the easing of restrictions in several parts of the country, the Company's extensive customer touch-points, including dealerships, workshops and the secondary network, are expected to open gradually.
- Maruti has also re-opened 600 dealerships which were closed due to coronavirus-led lockdown. The company has around 3,080 dealerships across 1,960 cities and towns in the country.

Under the COVID environment, OEMs are commencing single shift operations

Investment Thesis

Eicher Motors

We have a **Reduce Rating on Eicher Motors** – as the demand environment for premium bikes is likely to be impacted in this downturn across local and global markets. We believe that consumers in Tier III/IV towns will postpone purchases for luxury bikes while customers in the traditional southern markets will be impacted by a decline in remittances. Further, the export markets are likely to witness headwinds due to weak sale trends in the developed economies as well as due to changing consumer preferences in these markets. The stock is trading at 26.4/21.1 on FY21/22E estimates.

Volume Assumptions

in units	FY18	FY19	FY20E	FY21E	FY22E
RE	8,20,493	8,23,828	6,95,839	6,01,948	6,62,143
% YoY	23.1	0.4	(15.5)	(13.5)	10.0
VECV	65,932	72,969	48,721	41,626	48,753
% YoY	12.6	10.7	(33.2)	(14.6)	17.1
Total volumes	8,86,425	8,96,797	7,44,560	6,43,574	7,10,897
% YoY	22.3	1.2	(17.0)	(13.6)	10.5

Source: SIAM, Company, HSIE Research

- **Global Premium lifestyle biking segment is undergoing structural and cyclical headwinds:**
- **The US Market is witnessing falling volumes since 2016:** In 2019, sales in the US declined for the fourth year in a row hitting the lowest level in a decade, declining 4% YoY. Volumes declined across major brands including Harley-Davidson, Triumph and Ducati. The sales trends in USA have been weakening ever since the GFC crisis, with sales down by half as compared to '08.
- The global market for luxury lifestyle bikes remains static at ~0.5mn and we expect sales to contract in CY20 due to the COVID situation.
- As the cruiser segment volumes are shrinking, especially with the millennial generation moving away from these bikes, **Harley has decided to expand its product portfolio**. It will now be venturing in the adventure touring space as well as launch street fighter bikes, as the brand now seeks the favors of a new generation of riders.
- **Competition is rising internationally in the mid-size lifestyle biking segment:** The stagnating demand for lifestyle bikes in the West is forcing 'legacy' brands to search for younger riders in developed economies as well as for new customers in EMs. Both Harley Davidson and Triumph have announced partnerships to produce smaller sized 200cc-750cc bikes. We believe that competition will structurally increase over the medium term. Eicher Motors will face rising competition from global majors including Harley Davidson (Chinese JV), Triumph (along with Bajaj) and the M&M backed Jawa Motorcycles.
- **Amidst this challenging environment, Eichers export initiatives to be impacted.** Despite a tepid market for lifestyle bikes, Eicher hopes to make inroads with its mid-sized lifestyle bikes globally. The Twins have received an encouraging initial response, albeit on a small base. The annual exports of RE is now ~ 40K units – which is ~6% of sales.
- While we were banking on growth in export markets to offset some of the demand pressures in the home segment, the forecasts will now be recalibrated downwards. Further, exports is a medium term driver for the stock, with the

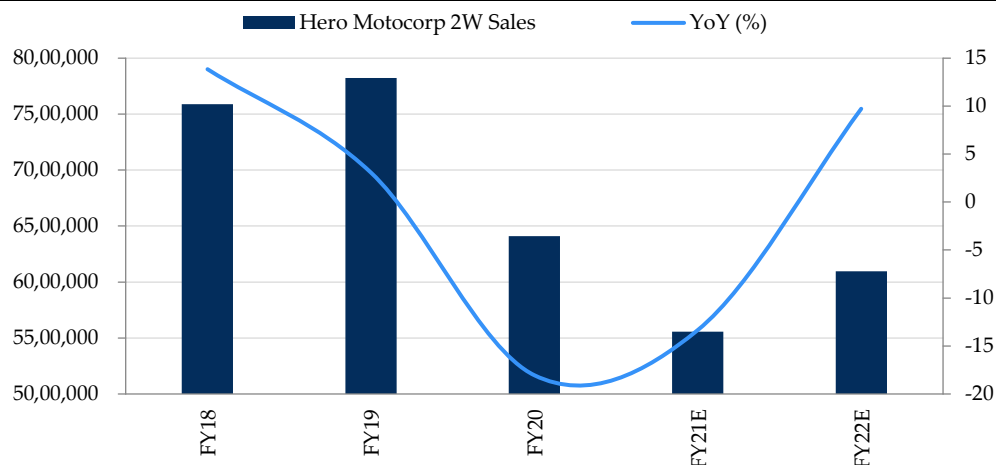
contribution from the same expected to rise to 10-20% of sales (up from ~6% currently). However, due to the above factors, we believe that export initiatives will take longer to fructify.

- Domestic Segment outlook:** Royal Enfield introduced small format stores to attract consumers from semi urban/rural India. RE was banking on these consumers to drive growth as sales in the mature markets i.e. big cities and richer states (see our initiation report) have been stagnating. Incremental growth was expected from new markets in the north India including Uttar Pradesh, Bihar, etc. These stores are expected to bring in an incremental 3,500 to 4,000 units a month, which is ~6-7% of monthly sales. However, consumers will push forward their 'discretionary' purchases in our view.
- Traditional markets such as Kerala are likely to be impacted due to the fall in overseas remittances, post the COVID situation. Due to the weak economic environment in the Gulf region, overseas inflows are expected to decline by 22% YoY to \$64 bn in 2020. Every fifth house in Kerala comprises of persons who have migrated to the Gulf. Their remittances, which crossed ₹1 trillion in 2019, make up 36% of Kerala's gross state domestic product. Thus, demand for discretionary products will be impacted further in this important southern market.

Hero Motocorp

We have a Buy recommendation on Hero Motocorp: We expect downtrading trends to benefit Hero as it has a two thirds market share in the entry/executive segments (overall market share of 52% in motorbikes). The stock trades at reasonable valuations of 18.6/15.1x on FY21/22E and has a dividend yield of ~4%.

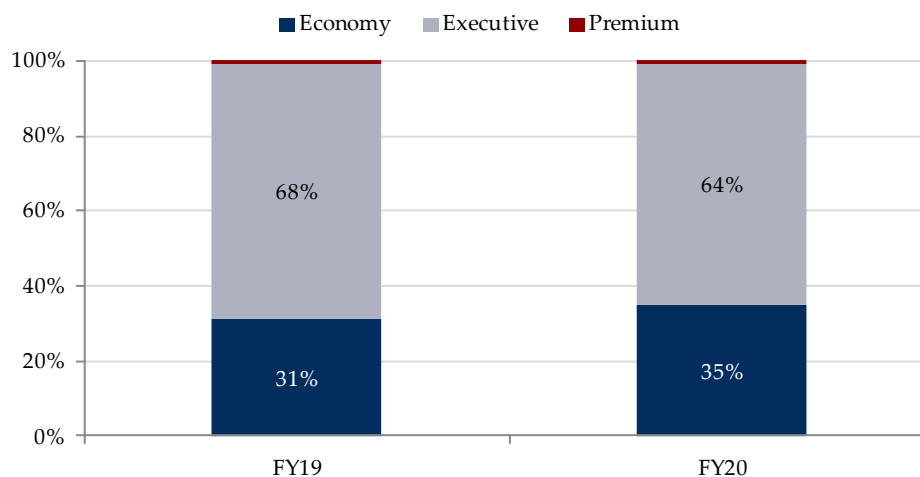
Hero Motocorp 2W volume assumption (in units)



Source: SIAM, Company, HSIE Research

- Over the past few years, the share of entry level bikes has risen in the overall motorbike sales mix and now accounts for ~30% of the market, where Hero is the market leader with a ~65% market share. The share of entry segment bikes has risen due to various factors including introduction of aggressively priced models and higher demand in rural areas, amongst others. The management of Hero Moto highlights that as incomes are impacted post the COVID outbreak, consumers are expected to purchase entry level variants.

Hero – Sales Mix comprised on entry/executive segment



Source: SIAM, Company, HSIE Research

- While the demand environment will be impacted in FY21, the decline in sales is expected to be higher in metro areas as the cities are witnessing a larger impact due to the virus, while sales in the rural segments will be relatively less impacted.
- **Agri economy to be supported by normal monsoons:** The agri economy benefitted from normal rainfall in FY20 (rains were at 110% of LPA). Further, initial forecasts in FY21 suggest that monsoons will be normal as well - the IMD has predicted normal rainfall at 100% of the Long Period Average (LPA). This will be beneficial for agri production in the current year with good rainfalls likely for two consecutive years. Further, we believe that the governments focus on agriculture and rural economy will continue. This will cushion the impact for mass segment demand of two wheelers in our view.
- Hero has sustained its market share in the domestic motorbike market at above 50% over the past several years. The OEM derives almost half of its volumes from the rural segment. As this segment has benefitted from sustained government support and under penetration, the OEM is expected to retain its dominant position.

Bajaj Auto

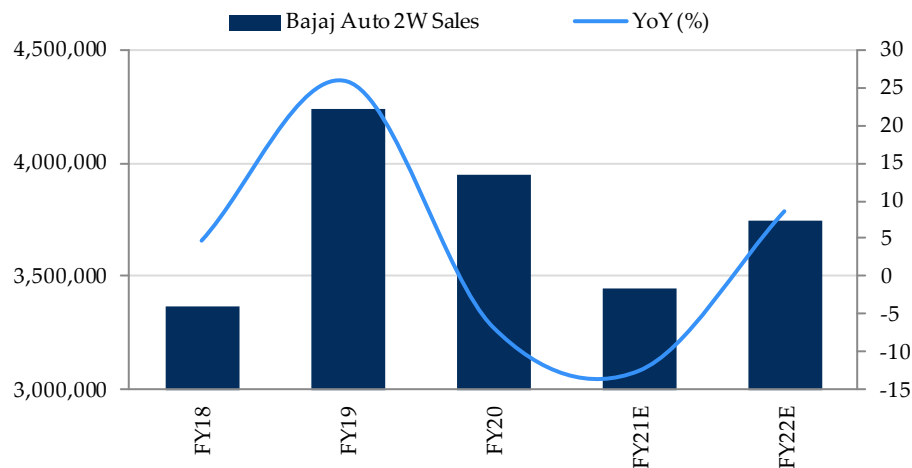
We have an ADD rating on Bajaj Auto: While Bajaj has a broad-based domestic portfolio, sales in the export markets (which account for over 45% of sales) are expected to be impacted due to the slowdown in the frontier markets. The OEM has healthy cash on its books at Rs220bn, which accounts for 32% of market cap and the stock is trading at relatively inexpensive valuations of 18.6/16.2x FY21/22E. This will cap downsides for the stock.

Volume assumption (in units)	FY18	FY19	FY20E	FY21E	FY22E
Motorcycles					
Total	33,69,331	42,36,873	39,47,568	34,48,894	37,43,314
% YoY	4.6	25.7	(6.8)	(12.6)	8.5
Three Wheelers					
Total	6,37,457	7,81,839	6,67,644	6,00,880	6,40,799
% YoY	42.9	22.6	(14.6)	(10.0)	6.6
Total sales					
- Domestic	23,44,211	29,40,768	24,44,107	20,95,779	22,98,773
- Exports	16,62,577	20,77,944	21,71,105	19,53,995	20,85,340
	40,06,788	50,18,712	46,15,212	40,49,773	43,84,113
% YoY	9.3	25.3	(8.0)	(12.3)	8.3

Source: Company, HSIE Research

- Bajaj Auto has a diversified domestic segment portfolio, which accounts for 53% of its sales. Within the local motorbike portfolio, Bajaj derives over half of its sales from the economy segment bikes. Within premium bikes, Bajaj has launched downsized variants of the Pulsar to offset a decline in the broader segment volumes.

Bajaj Auto 2W volume assumption



Source: SIAM, Company, HSIE Research

- Bajaj has benefitted from the uptrend in exports over the past three years as it is amongst the leading OEMs (top 3 by market share) in several countries in Africa. Consequently, exports share has risen to 47% of sales. **However, oil prices have corrected sharply, which will impact the rising trend of past few years.** As highlighted above, these frontier markets are typically commodity intensive and derive substantial portion of their revenues from oil.
- **Nigeria has requested a bail out; which is Bajaj Autos largest export market:** Nigeria's economy has been affected by the Coronavirus pandemic and the oil price crash. The Finance Minister has estimated that the economy could shrink as much as 3.4% this year in the absence of a stimulus plan.
- We expect sales for Bajaj's exports to decline 10% in FY21E after witnessing healthy growth over the past 3 years.

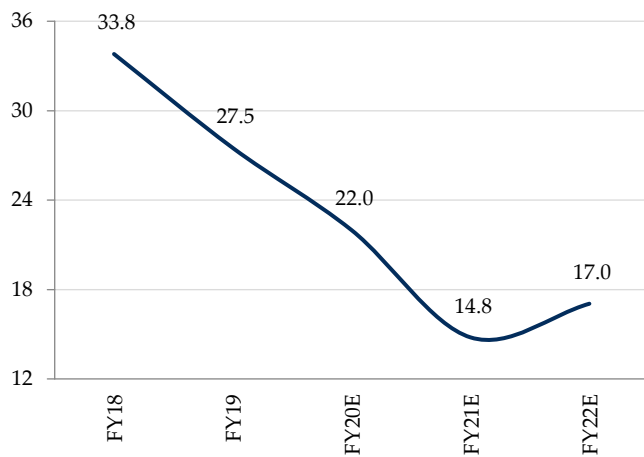
Autos : Sector Thematic

Peer set comparison

	Mcap (Rs bn)	CMP (Rs/sh)	Reco	TP	Adj EPS (Rs/sh)			P/E (x)			RoE (%)			EV/EBITDA (x)		
					FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
AUTOS																
Bajaj Auto	742	2,566	ADD	2,695	162.6	138.0	158.4	15.8	18.6	16.2	20.4	15.7	16.6	11.0	13.0	10.7
Eicher	390	14,304	REDUCE	13,800	645.0	542.3	677.2	22.2	26.4	21.1	18.2	13.5	15.0	14.7	17.3	13.8
Hero Motocorp	417	2,086	BUY	2,210	151.9	112.3	138.1	13.7	18.6	15.1	22.0	14.8	17.1	9.0	12.0	9.4

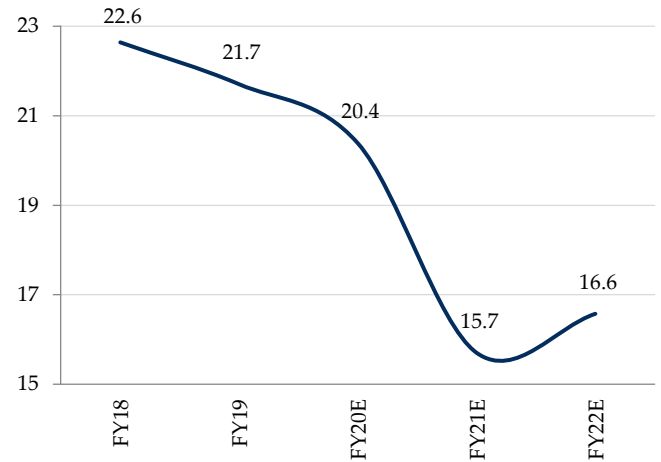
RoE (%)

Hero Motocorp's RoE (%)



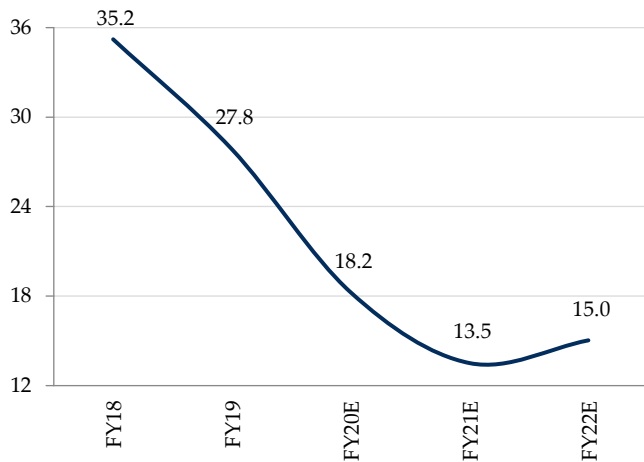
Source: Company, HSIE Research

Bajaj Auto's RoE (%)



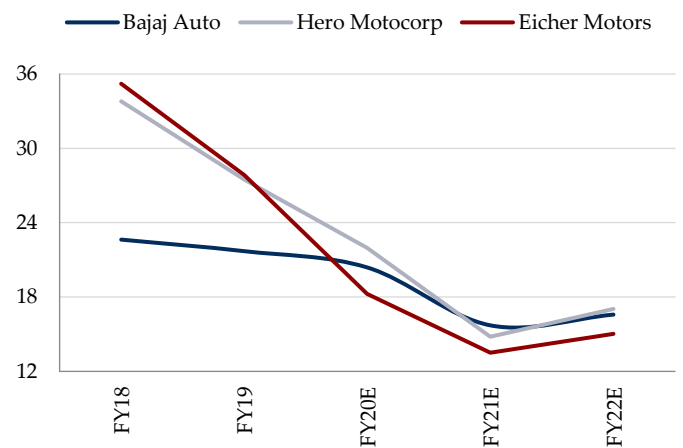
Source: Bloomberg, Company, HSIE Research

Eicher Motor's RoE (%)



Source: Company, HSIE Research

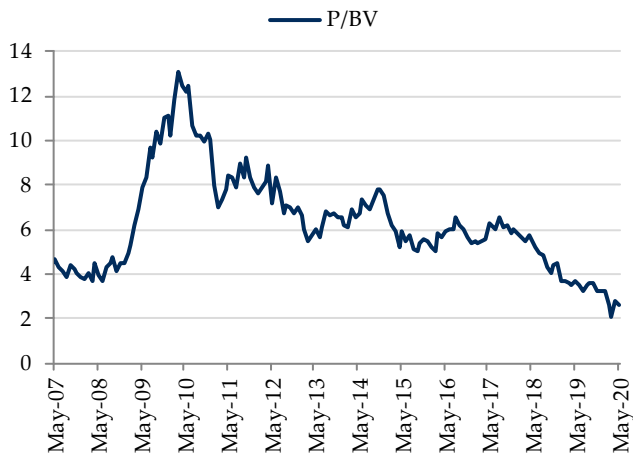
2W Companies RoE (%)



Autos : Sector Thematic

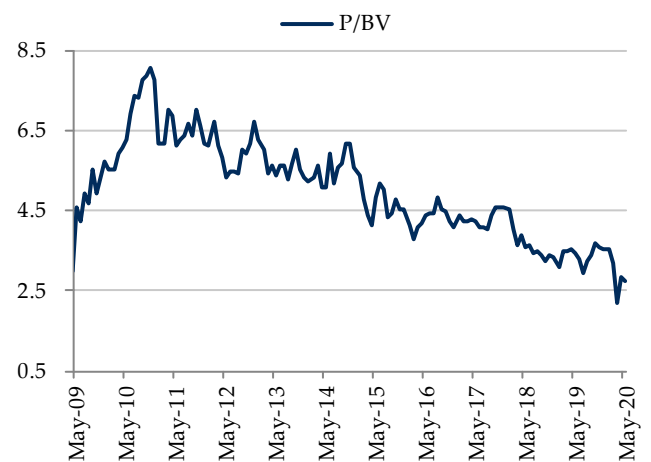
One Year Forward Price/Book Value (x)

Hero Motocorp



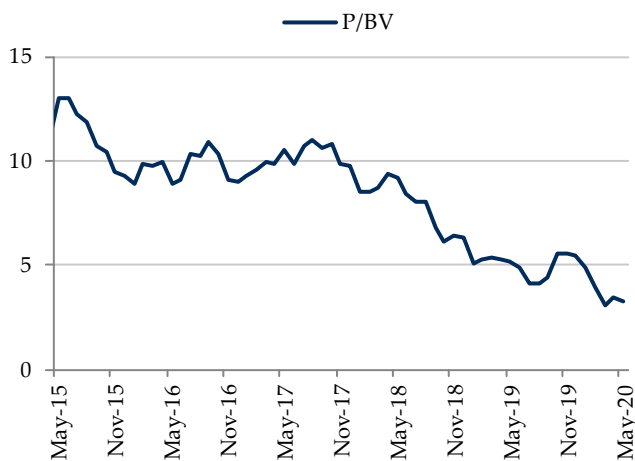
Source: Bloomberg, Company, HSIE Research

Bajaj Auto



Source: Bloomberg, Company, HSIE Research

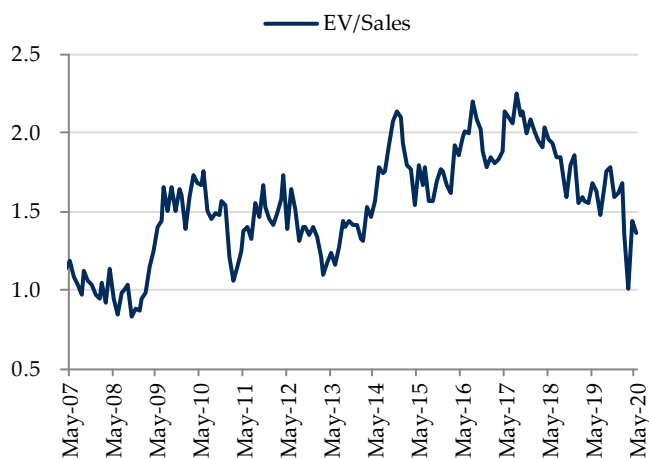
Eicher Motors



Source: Bloomberg, Company, HSIE Research

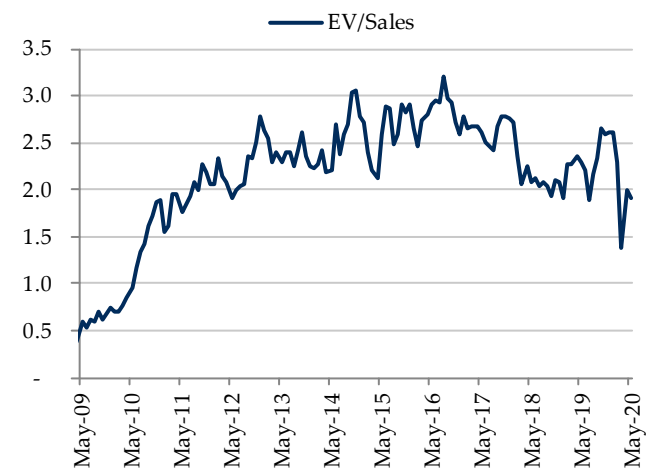
Auto Companies: One year forward Enterprise Value/Sales (x)

Hero Motocorp



Source: Bloomberg, Company, HSIE Research

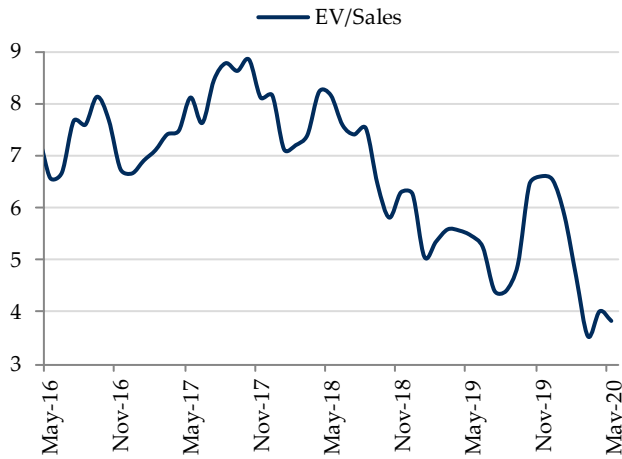
Bajaj Auto



Source: Bloomberg, Company, HSIE Research

Autos : Sector Thematic

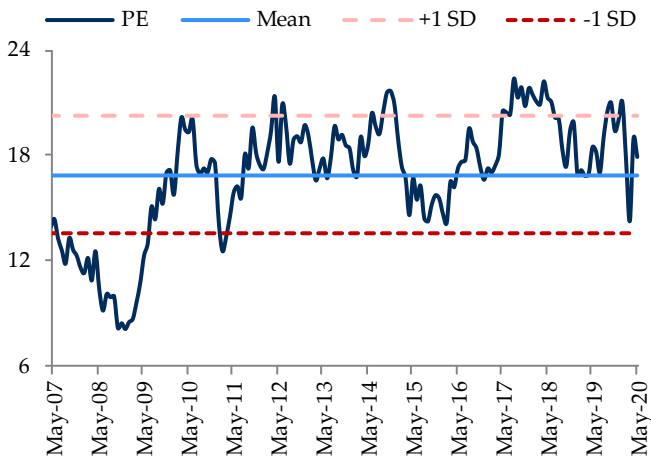
Eicher Motors



Source: Bloomberg, Company, HSIE Research

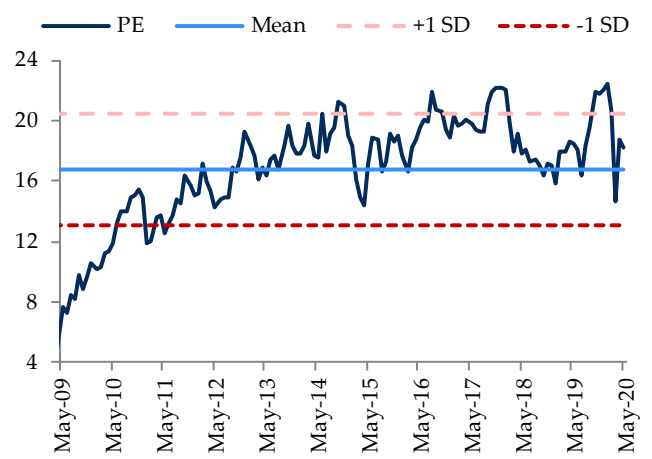
Auto Companies: One year forward Price/Earnings (x)

Hero Motocorp



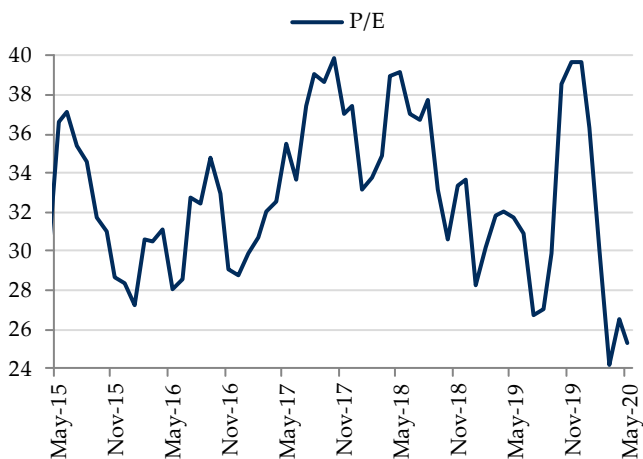
Source: Bloomberg, Company, HSIE Research

Bajaj Auto



Source: Bloomberg, Company, HSIE Research

Eicher Motors



Source: Bloomberg, Company, HSIE Research

Eicher Motors financials (Consolidated)

INCOME STATEMENT (Rs mn)

Year ending March	FY17	FY18	FY19	FY20E	FY21E	FY22E
Net Revenues	70,334	89,650	97,971	90,065	82,026	92,399
<i>Growth (%)</i>	13.9	27.5	9.3	(8.1)	(8.9)	12.6
Material Expenses	37,045	46,435	50,574	49,341	45,674	51,175
Employee Expenses	4,263	5,737	7,024	7,201	6,806	7,390
Other Operating Expenses	7,287	9,402	11,341	11,699	11,660	12,342
Total Expenses	48,594	61,573	68,940	68,241	64,140	70,907
EBITDA	21,740	28,076	29,031	21,823	17,886	21,492
<i>EBITDA Margin (%)</i>	30.9	31.3	29.6	24.2	21.8	23.3
<i>EBITDA Growth (%)</i>	28.7	29	3	(25)	(18)	20
Depreciation	1,538	2,233	3,003	3,587	3,623	3,913
EBIT	20,201	25,843	26,028	18,236	14,263	17,580
Other Income (Including EO Items)	1,813	601	4,259	5,263	5,298	5,864
Interest	36	53	73	134	137	144
PBT	21,979	26,390	30,214	23,365	19,424	23,300
Tax (Incl Deferred)	7,203	9,359	10,770	5,491	4,642	5,545
Share of profit from JV	1,895	2,566	2,584	256	1	706
RPAT	16,671	19,597	22,027	18,131	14,783	18,461
EO (Loss) / Profit (Net Of Tax)	(460)	(2,201)	(175)	548	-	-
APAT	17,131	21,797	22,203	17,583	14,783	18,461
<i>APAT Growth (%)</i>	28.0	27.2	1.9	(20.8)	(15.9)	24.9
Adjusted EPS (Rs)	629.6	799.6	814.5	645.0	542.3	677.2
<i>EPS Growth (%)</i>	27.8	27.0	1.9	(20.8)	(15.9)	24.9

Source: Company, HSIE Research

BALANCE SHEET (Rs mn)

As at March	FY17	FY18	FY19	FY20E	FY21E	FY22E
Share Capital - Equity	272	273	273	273	273	273
Reserves	53,179	70,028	88,914	1,03,371	1,15,163	1,30,061
Total Shareholders Funds	53,451	70,301	89,187	1,03,644	1,15,436	1,30,334
Short Term Debt	444	1,508	1,868	1,961	2,059	2,162
Total Debt	444	1,508	1,868	1,961	2,059	2,162
Net Deferred Taxes	778	1,421	2,739	2,191	2,213	2,235
TOTAL SOURCES OF FUNDS	54,673	73,230	93,794	1,07,796	1,19,707	1,34,730
APPLICATION OF FUNDS						
Net Block	8,728	15,017	18,746	21,659	21,277	23,466
CWIP	3,738	3,332	4,497	4,797	5,097	5,397
Investments	17,458	17,643	19,439	18,931	18,931	19,399
Total Non-current Assets	29,924	35,992	42,682	45,387	45,305	48,262
Cash & Equivalents	32,664	50,286	59,439	70,044	82,132	94,973
Inventories	3,359	3,946	6,334	5,922	5,169	5,822
Debtors	500	680	903	1,234	1,124	1,266
Other Current Assets	3,460	4,319	4,510	4,848	5,239	5,666
Total Current Assets	39,983	59,231	71,186	82,048	93,664	1,07,727
Creditors	8,327	11,719	12,341	11,351	10,337	11,645
Other Current Liabilities & Provns	6,907	10,274	7,734	8,288	8,924	9,614
Total Current Liabilities	15,234	21,992	20,075	19,639	19,262	21,259
Net Current Assets	24,749	37,238	51,111	62,409	74,402	86,468
TOTAL APPLICATION OF FUNDS	54,673	73,230	93,794	1,07,796	1,19,707	1,34,730

Source: Company, HSIE Research

Autos : Sector Thematic

CASH FLOW STATEMENT (Rs mn)

Year ending March	FY17	FY18	FY19	FY20E	FY21E	FY22E
Reported PBT	23,874	28,956	32,798	23,622	19,426	24,006
Non-operating & EO Items	(1,813)	(601)	(4,259)	(5,263)	(5,298)	(5,864)
Interest Expenses	36	53	73	134	137	144
Depreciation	1,538	2,233	3,003	3,587	3,623	3,913
Working Capital Change	1,815	5,133	(4,720)	(692)	95	775
Tax Paid	(6,784)	(8,716)	(9,452)	(6,039)	(4,620)	(5,523)
OPERATING CASH FLOW (a)	18,666	27,058	17,443	15,349	13,362	17,450
Capex	(5,117)	(8,117)	(7,897)	(6,800)	(3,541)	(6,402)
Free Cash Flow (FCF)	13,548	18,942	9,546	8,549	9,821	11,048
Investments	-	(185)	(1,797)	509	(1)	(468)
Non-operating Income	1,813	601	4,259	5,263	5,298	5,864
INVESTING CASH FLOW (b)	(3,304)	(7,701)	(5,435)	(1,028)	1,756	(1,006)
Debt Issuance/(Repaid)	218	1,064	359	93	98	103
Interest Expenses	(36)	(53)	(73)	(134)	(137)	(144)
FCFE	13,731	19,953	9,832	8,508	9,782	11,007
Share Capital Issuance	3,420	746	832	-	-	(0)
Dividend	(3,171)	(3,493)	(3,973)	(3,674)	(2,992)	(3,563)
FINANCING CASH FLOW (c)	432	(1,736)	(2,855)	(3,714)	(3,030)	(3,603)
NET CASH FLOW (a+b+c)	15,793	17,622	9,153	10,606	12,088	12,841
Closing Cash & Equivalents	32,664	50,286	59,439	70,044	82,132	94,973

KEY RATIOS

	FY17	FY18	FY19	FY20E	FY21E	FY22E
PROFITABILITY (%)						
GPM	47.3	48.2	48.4	45.2	44.3	44.6
EBITDA Margin	30.9	31.3	29.6	24.2	21.8	23.3
EBIT Margin	28.7	28.8	26.6	20.2	17.4	19.0
APAT Margin	24.4	24.3	22.7	19.5	18.0	20.0
RoE	38.1	35.2	27.8	18.2	13.5	15.0
RoIC (or Core RoCE)	64.3	74.2	58.5	38.7	28.8	34.6
RoCE	29.6	26.1	20.1	13.8	9.5	10.5
EFFICIENCY						
Tax Rate (%)	32.8	35.5	35.6	23.5	23.9	23.8
Fixed Asset Turnover (x)	8.1	6.0	5.2	4.2	3.9	3.9
Inventory (days)	17.4	16.1	23.6	24.0	23.0	23.0
Debtors (days)	2.6	2.8	3.4	5.0	5.0	5.0
Other Current Assets (days)	18.0	17.6	16.8	19.6	23.3	22.4
Payables (days)	43.2	47.7	46.0	46.0	46.0	46.0
Other Current Liab & Provm (days)	35.8	41.8	28.8	33.6	39.7	38.0
Cash Conversion Cycle (days)	(41.1)	(53.1)	(31.0)	(30.9)	(34.4)	(33.6)
Debt/EBITDA (x)	(1.5)	(1.7)	(2.0)	(3.1)	(4.5)	(4.3)
Net D/E (x)	(0.6)	(0.7)	(0.6)	(0.7)	(0.7)	(0.7)
Interest Coverage (x)	567.5	484.0	355.1	136.1	104.4	122.5
PER SHARE DATA (Rs)						
EPS	629.6	799.6	814.5	645.0	542.3	677.2
CEPS	669.2	800.8	918.2	796.7	675.2	820.7
Dividend	100.0	110.0	125.1	115.7	94.2	112.2
Book Value	1,964	2,579	3,272	3,802	4,235	4,781
VALUATION						
P/E (x)	22.7	17.9	17.6	22.2	26.4	21.1
P/BV (x)	7.3	5.5	4.4	3.8	3.4	3.0
EV/EBITDA (x)	16.4	12.2	11.4	14.7	17.3	13.8
EV/Revenues (x)	5.1	3.8	3.4	3.6	3.8	3.2
OCF/EV (%)	5.2	7.9	5.2	4.8	4.3	5.9
FCF/EV (%)	3.8	5.6	2.9	2.7	3.2	3.7
FCFE/Mkt Cap (%)	3.5	5.1	2.5	2.2	2.5	2.8
Dividend Yield (%)	0.7	0.8	0.9	0.8	0.7	0.8

Source: Company, HSIE Research

Hero Motocorp financials (Standalone)

INCOME STATEMENT (Rs mn)

Year ending March	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Net Revenues	2,84,427	2,84,750	3,22,305	3,36,505	2,84,808	2,57,559	2,88,152
<i>Growth (%)</i>	3.1	0.1	13.2	4.4	(15.4)	(9.6)	11.9
Material Expenses	1,93,098	1,90,118	2,18,346	2,33,177	1,94,324	1,78,858	1,98,087
Employee Expenses	13,159	13,960	15,401	17,302	18,513	17,772	18,442
Other Operating Expenses	33,620	34,324	35,755	36,725	32,753	32,040	35,731
Total Expenses	2,39,877	2,38,402	2,69,503	2,87,205	2,45,590	2,28,670	2,52,260
EBITDA	44,550	46,348	52,802	49,301	39,218	28,889	35,892
<i>EBITDA Margin (%)</i>	15.7	16.3	16.4	14.7	13.8	11.2	12.5
<i>EBITDA Growth (%)</i>	25.8	4.0	13.9	(6.6)	(20.5)	(26.3)	24.2
Depreciation	4,376	4,927	5,556	6,020	8,483	6,957	7,783
EBIT	40,173	41,421	47,246	43,281	30,735	21,933	28,108
Other Income (Including EO Items)	4,224	5,224	5,258	6,913	14,369	7,719	8,379
Interest	49	61	63	86	188	189	201
PBT	44,349	46,585	52,442	50,107	44,916	29,462	36,287
Tax (Incl Deferred)	12,747	12,813	15,468	16,259	9,958	7,034	8,709
Minority Interest	-	-	-	-	-	-	-
RPAT	31,602	33,771	36,974	33,849	34,958	22,428	27,578
EO (Loss)/Profit (Net Of Tax)	-	-	-	-	(4,620)	-	-
APAT	31,602	33,771	36,974	33,849	30,338	22,428	27,578
<i>APAT Growth (%)</i>	24.4	6.9	9.5	(8.5)	(10.4)	(26.1)	23.0
Adjusted EPS (Rs)	158.2	169.1	185.1	169.5	151.9	112.3	138.1

Source: Company, HSIE Research

BALANCE SHEET (Rs mn)

As at March	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
SOURCES OF FUNDS							
Share Capital - Equity	399	399	399	399	399	399	399
Reserves	87,945	1,00,714	1,17,289	1,28,172	1,47,154	1,55,603	1,67,005
Total Shareholders Funds	88,344	1,01,113	1,17,689	1,28,571	1,47,553	1,56,002	1,67,404
Total Debt	-	-	-	-	-	-	-
Net Deferred Taxes	2,225	4,143	5,117	5,365	5,472	5,582	5,693
TOTAL SOURCES OF FUNDS	90,569	1,05,256	1,22,805	1,33,936	1,53,026	1,61,584	1,73,098
APPLICATION OF FUNDS							
Net Block	39,014	45,899	47,692	47,998	52,015	51,058	51,365
CWIP	2,883	2,707	2,038	3,607	3,679	3,311	2,980
Investments	5,937	8,758	10,209	15,718	16,032	17,635	19,399
Total Non-current Assets	47,834	57,364	59,938	67,322	71,726	72,004	73,743
Cash & Equivalents	41,187	51,508	66,456	45,333	62,771	69,524	79,991
Inventories	6,730	6,563	8,236	10,724	9,364	9,879	9,473
Debtors	12,828	15,619	15,202	28,216	21,848	21,169	22,105
Other Current Assets	17,150	15,889	17,556	24,817	25,885	27,075	28,473
Total Current Assets	77,894	89,578	1,07,450	1,09,090	1,19,868	1,27,647	1,40,042
Creditors	26,506	32,473	33,188	33,553	28,871	27,520	29,210
Other Current Liabilities & Provn's	8,654	9,214	11,395	8,923	9,697	10,547	11,478
Total Current Liabilities	35,159	41,686	44,583	42,476	38,568	38,067	40,688
Net Current Assets	42,735	47,892	62,867	66,614	81,300	89,580	99,355
TOTAL APPLICATION OF FUNDS	90,569	1,05,256	1,22,805	1,33,936	1,53,026	1,61,584	1,73,098

Source: Company, HSIE Research

Autos : Sector Thematic

CASH FLOW STATEMENT (Rs mn)

Year ending March	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Reported PBT	44,349	46,585	52,442	50,107	44,916	29,462	36,287
Non-operating & EO Items	(4,224)	(5,224)	(5,258)	(6,913)	(14,369)	(7,719)	(8,379)
Interest Expenses	49	61	63	86	188	189	201
Depreciation	4,376	4,927	5,556	6,020	8,483	6,957	7,783
Working Capital Change	(6,257)	5,164	(27)	(24,871)	2,753	(1,528)	692
Tax Paid	(9,786)	(10,895)	(14,495)	(16,010)	(9,851)	(6,925)	(8,597)
OPERATING CASH FLOW (a)	28,507	40,617	38,280	8,420	32,120	20,437	27,987
Capex	(10,021)	(11,636)	(6,679)	(7,895)	(12,572)	(5,632)	(7,759)
Free Cash Flow (FCF)	18,486	28,981	31,602	525	19,548	14,805	20,228
Investments	2,701	(2,821)	(1,451)	(5,509)	(314)	(1,603)	(1,764)
Non-operating Income	4,224	5,224	5,258	6,913	14,369	7,719	8,379
INVESTING CASH FLOW (b)	(3,096)	(9,233)	(2,872)	(6,491)	1,482	483	(1,143)
Debt Issuance/(Repaid)	-	-	-	-	-	-	-
Interest Expenses	(49)	(61)	(63)	(86)	(188)	(189)	(201)
FCFE	18,437	28,920	31,539	439	19,360	14,616	20,027
Share Capital Issuance	5,707	(4,028)	(1,426)	(5,593)	-	0	(0)
Dividend	(14,378)	(16,975)	(18,972)	(17,374)	(15,976)	(13,979)	(16,176)
FINANCING CASH FLOW (c)	(8,720)	(21,063)	(20,460)	(23,052)	(16,164)	(14,168)	(16,377)
NET CASH FLOW (a+b+c)	16,691	10,321	14,949	(21,123)	17,438	6,752	10,467
Closing Cash & Equivalents	41,187	51,508	66,456	45,333	62,771	69,524	79,991

KEY RATIOS

	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
PROFITABILITY (%)							
GPM	32.1	33.2	32.3	30.7	31.8	30.6	31.3
EBITDA Margin	15.7	16.3	16.4	14.7	13.8	11.2	12.5
EBIT Margin	14.1	14.5	14.7	12.9	10.8	8.5	9.8
APAT Margin	11.1	11.9	11.5	10.1	10.7	8.7	9.6
RoE	41.1	35.7	33.8	27.5	22.0	14.8	17.1
RoIC (or Core RoCE)	63.9	58.2	60.5	40.3	26.7	18.3	23.1
RoCE	36.9	30.7	29.2	22.8	16.7	10.6	12.8
EFFICIENCY							
Tax Rate (%)	28.7	27.5	29.5	32.4	22.2	23.9	24.0
Fixed Asset Turnover (x)	7.3	6.2	6.8	7.0	5.5	5.0	5.6
Inventory (days)	8.6	8.4	9.3	11.6	12.0	14.0	12.0
Debtors (days)	16.5	20.0	17.2	30.6	28.0	30.0	28.0
Other Current Assets (days)	22.0	20.4	19.9	26.9	33.2	38.4	36.1
Payables (days)	34.0	41.6	37.6	36.4	37.0	39.0	37.0
Other Current Liab & Provns (days)	11.1	11.8	12.9	9.7	12.4	14.9	14.5
Cash Conversion Cycle (days)	2.0	(4.6)	(4.1)	23.1	23.7	28.4	24.5
Debt/EBITDA (x)	(0.9)	(1.1)	(1.3)	(0.9)	(1.6)	(2.4)	(2.2)
Net D/E (x)	(0.5)	(0.5)	(0.6)	(0.4)	(0.4)	(0.4)	(0.5)
Interest Coverage (x)	821.5	684.6	755.9	503.3	163.5	116.0	139.8
PER SHARE DATA (Rs)							
EPS	158.2	169.1	185.1	169.5	151.9	112.3	138.1
CEPS	180.2	193.8	213.0	199.6	217.5	147.1	177.1
Dividend	72.0	85.0	95.0	87.0	80.0	70.0	81.0
Book Value	442	506	589	644	739	781	838
VALUATION							
P/E (x)	13.2	12.3	11.3	12.3	13.7	18.6	15.1
P/BV (x)	4.7	4.1	3.5	3.2	2.8	2.7	2.5
EV/EBITDA (x)	8.4	7.9	6.6	7.5	9.0	12.0	9.4
EV/Revenues (x)	1.3	1.3	1.1	1.1	1.2	1.3	1.2
OCF/EV (%)	7.6	11.1	10.9	2.3	9.1	5.9	8.3
FCF/EV (%)	4.9	7.9	9.0	0.1	5.5	4.3	6.0
FCFE/Mkt Cap (%)	4.4	6.9	7.6	0.1	4.6	3.5	4.8
Dividend Yield (%)	3.5	4.1	4.6	4.2	3.8	3.4	3.9

Source: Company, HSIE Research

Bajaj Auto financials (Standalone)

INCOME STATEMENT (Rs mn)

Year ending March	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Net Revenues	2,25,865	2,17,667	2,52,189	3,02,500	2,93,986	2,70,153	2,99,788
Growth (%)	4.5	(3.6)	15.9	19.9	(2.8)	(8.1)	11.0
Material Expenses	1,50,569	1,46,242	1,74,101	2,18,243	2,09,906	1,95,321	2,15,848
Employee Expenses	9,171	9,971	10,691	12,554	13,523	13,075	13,790
Other Operating Expenses	18,306	17,231	19,023	21,882	23,181	22,963	24,882
Total Expenses	1,78,046	1,73,444	2,03,815	2,52,679	2,46,610	2,31,359	2,54,520
EBITDA	47,820	44,223	48,374	49,821	47,376	38,794	45,268
EBITDA Margin (%)	21.2	20.3	19.2	16.5	16.1	14.4	15.1
EBITDA Growth (%)	16.2	(7.5)	9.4	3.0	(4.9)	(18.1)	16.7
Depreciation	3,072	3,073	3,148	2,657	2,514	2,594	2,828
EBIT	44,748	41,150	45,226	47,164	44,862	36,200	42,440
Other Income (Including EO Items)	10,736	12,220	12,613	19,913	15,868	16,012	17,219
Interest	11	14	13	45	7	12	14
PBT	55,473	53,356	57,826	67,032	60,723	52,200	59,645
Tax (Incl Deferred)	16,177	15,081	17,145	20,280	13,663	12,267	13,808
RPAT	39,297	38,275	40,681	46,752	47,060	39,933	45,837
EO (Loss)/Profit (Net Of Tax)	-	-	225	(2,385)	-	-	-
APAT	39,297	38,275	40,906	44,367	47,060	39,933	45,837
APAT Growth (%)	28.9	(2.6)	6.9	8.5	6.1	(15.1)	14.8
Adjusted EPS (Rs)	135.8	132.3	141.4	153.3	162.6	138.0	158.4
EPS Growth (%)	28.9	(2.6)	6.9	8.5	6.1	(15.1)	14.8

Source: Company, HSIE Research

BALANCE SHEET (Rs mn)

As at March	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
SOURCES OF FUNDS							
Share Capital – Equity	2,894	2,894	2,894	2,894	2,894	2,894	2,894
Reserves	1,29,772	1,67,448	1,88,145	2,14,905	2,41,036	2,61,769	2,85,568
Total Shareholders Funds	1,32,666	1,70,341	1,91,039	2,17,799	2,43,930	2,64,663	2,88,462
Total Debt	-	-	-	-	-	-	-
Net Deferred Taxes	2,028	3,136	3,234	5,427	3,301	1,996	774
Other Non-current Liabilities & Provns	1,886	1,764	1,687	1,696	1,696	1,696	1,696
TOTAL SOURCES OF FUNDS	1,36,579	1,75,242	1,95,960	2,24,922	2,48,927	2,68,355	2,90,931
APPLICATION OF FUNDS							
Net Block	27,389	20,018	18,783	17,639	22,608	27,497	32,081
CWIP	522	422	565	480	498	515	602
Investments	12,227	12,227	12,227	12,227	12,227	12,227	12,227
Total Non-current Assets	40,139	32,667	31,575	30,347	35,333	40,239	44,911
Cash & Equivalents	98,554	1,37,886	1,71,436	1,88,595	2,21,971	2,38,034	2,57,026
Inventories	7,191	7,284	7,426	9,615	10,471	8,882	9,856
Debtors	7,179	9,533	14,919	25,597	16,914	15,543	17,248
Other Current Assets	11,803	20,780	12,839	19,651	14,981	13,767	15,277
Total Current Assets	1,24,727	1,75,482	2,06,620	2,43,457	2,64,337	2,76,226	2,99,407
Creditors	20,270	22,357	32,443	37,867	39,467	36,267	40,246
Other Current Liabilities & Provns	8,015	10,550	9,792	11,015	11,276	11,842	13,141
Total Current Liabilities	28,286	32,907	42,235	48,882	50,743	48,109	53,387
Net Current Assets	96,441	1,42,575	1,64,385	1,94,575	2,13,594	2,28,116	2,46,021
TOTAL APPLICATION OF FUNDS	1,36,580	1,75,242	1,95,960	2,24,922	2,48,927	2,68,355	2,90,931

Source: Company, HSIE Research

Autos : Sector Thematic

CASH FLOW STATEMENT (Rs mn)

Year ending March	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Reported PBT	55,473	53,356	57,826	67,032	60,723	52,200	59,645
Non-operating & EO Items	(10,736)	(12,220)	(12,613)	(19,913)	(15,868)	(16,012)	(17,219)
Interest Expenses	11	14	13	45	7	12	14
Depreciation	3,072	3,073	3,148	2,657	2,514	2,594	2,828
Working Capital Change	(7,548)	(6,802)	11,740	(13,031)	14,357	1,541	1,088
Tax Paid	(15,564)	(13,973)	(17,047)	(18,087)	(15,788)	(13,572)	(15,030)
OPERATING CASH FLOW (a)	24,707	23,449	43,068	18,702	45,945	26,763	31,326
Capex	(9,261)	4,399	(2,056)	(1,429)	(7,500)	(7,500)	(7,500)
Free Cash Flow (FCF)	15,446	27,847	41,011	17,273	38,445	19,263	23,826
Investments	787	(122)	(77)	9	-	-	-
Non-operating Income	10,736	12,220	12,613	19,913	15,868	16,012	17,219
INVESTING CASH FLOW (b)	2,262	16,497	10,479	18,493	8,368	8,512	9,719
Debt Issuance/(Repaid)	-	-	-	-	-	-	-
Interest Expenses	(11)	(14)	(13)	(45)	(7)	(12)	(14)
FCFE	15,436	27,833	40,998	17,229	38,438	19,251	23,812
Share Capital Issuance	5,538	18,556	947	878	-	(0)	-
Dividend	(19,130)	(19,155)	(20,931)	(20,869)	(20,930)	(19,200)	(22,038)
FINANCING CASH FLOW (c)	(13,602)	(614)	(19,997)	(20,037)	(20,937)	(19,212)	(22,052)
NET CASH FLOW (a+b+c)	13,367	39,332	33,550	17,159	33,376	16,063	18,992
Closing Cash & Equivalents	98,554	1,37,886	1,71,436	1,88,595	2,21,971	2,38,034	2,57,026

KEY RATIOS

	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
PROFITABILITY (%)							
GPM	33.3	32.8	31.0	27.9	28.6	27.7	28.0
EBITDA Margin	21.2	20.3	19.2	16.5	16.1	14.4	15.1
EBIT Margin	19.8	18.9	17.9	15.6	15.3	13.4	14.2
APAT Margin	17.4	17.6	16.2	14.7	16.0	14.8	15.3
RoE	32.8	25.3	22.6	21.7	20.4	15.7	16.6
RoIC (or Core RoCE)	101.8	78.3	102.8	108.1	109.9	96.7	101.6
RoCE	25.8	18.9	17.1	15.6	14.7	10.7	11.7
EFFICIENCY							
Tax Rate (%)	29.2	28.3	29.6	30.3	22.5	23.5	23.2
Fixed Asset Turnover (x)	8.2	10.9	13.4	17.1	13.0	9.8	9.3
Inventory (days)	11.6	12.2	10.7	11.6	13.0	12.0	12.0
Debtors (days)	11.6	16.0	21.6	30.9	21.0	21.0	21.0
Other Current Assets (days)	19.1	34.8	18.6	23.7	18.6	18.6	18.6
Payables (days)	32.8	37.5	47.0	45.7	49.0	49.0	49.0
Other Current Liab & Provns (days)	13.0	17.7	14.2	13.3	14.0	16.0	16.0
Cash Conversion Cycle (days)	(3.4)	7.9	(10.2)	7.2	(10.4)	(13.4)	(13.4)
Debt/EBITDA (x)	(2.1)	(3.1)	(3.5)	(3.8)	(4.7)	(6.1)	(5.7)
Net D/E (x)	(0.7)	(0.8)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)
Interest Coverage (x)	4,261.7	2,939.3	3,452.4	1,052.8	6,408.8	3,016.7	3,031.4
PER SHARE DATA (Rs)							
EPS	135.8	132.3	141.4	153.3	162.6	138.0	158.4
CEPS	146.4	142.9	151.5	170.7	171.3	147.0	168.2
Dividend	50.0	55.0	55.0	60.0	60.0	60.2	55.2
Book Value	458	589	660	753	843	915	997
VALUATION							
P/E (x)	18.9	19.4	18.1	16.7	15.8	18.6	16.2
P/BV (x)	5.6	4.4	3.9	3.4	3.0	2.8	2.6
EV/EBITDA (x)	13.5	13.7	11.8	11.1	11.0	13.0	10.7
EV/Revenues (x)	2.9	2.8	2.3	1.8	1.8	1.9	1.6
OCF/EV (%)	3.8	3.9	7.5	3.4	8.8	5.3	6.5
FCF/EV (%)	2.4	4.6	7.2	3.1	7.4	3.8	4.9
FCFE/Mkt Cap (%)	2.1	3.7	5.5	2.3	5.2	2.6	3.2
Dividend Yield (%)	1.9	2.1	2.1	2.3	2.3	2.3	2.2

Source: 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

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