

Autos

1QFY18E Results Preview

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1QFY18E: Muted performance

- 1QFY18 is expected to be a muted quarter for auto companies. PV/2W wholesale dispatches were strong in first two months of the quarter, but June sales were impacted by uncertainty ahead of GST. **OEMs reduced their shipments to help dealers liquidate their stock. Customers postponed purchases**, owing to expectations of price cuts post GST implementation.
- 2Ws volume grew by 8% YoY owing to marriage season demand and lower channel inventory.** PV witnessed moderation in growth(+6% YoY), with MSIL continuing to outperform the PV industry. **CV volumes, both wholesale (-12% YoY) and retail sales were weak, owing to BS-4-related supply constraints and fleet operators pausing additions ahead of GST.**
- Average price of key commodities increased - CR Steel sheet (+8% YoY), Lead (+25% YoY), Aluminum (+21% YoY), and Rubber (flat YoY). EBITDA margin for our Auto OEM universe (ex-TTMT) is likely to decline 39bps YoY (+94bps QoQ) to 15.2%, owing to higher raw material costs and price hikes will not help offset the same. This is without any material impact of compensation to dealers, which would be accounted for in 2QFY18.
- In the PV segment, riding on the consistent success of Ciaz, Brezza and Baleno, and the initial demand for the new Dzire, MSIL is expected to witness 19% growth in its top line. However, M&M will show muted growth in earnings, as a spurt in tractor volumes was largely offset by a 4% dip in auto volumes. We expect 2W companies to have a tough quarter, with Bajaj Auto's EBITDA to fall by 12% YoY, while Hero Motocorp will witness 3% growth.
- Maruti Suzuki (PAT +14% YoY) and Eicher Motors (PAT +26% YoY) will report strong earnings growth.**

1QFY18 Volume Summary

Company	1QFY18	% YoY	% QoQ
Ashok Leyland	28,495	(8.6)	(40.2)
- LCV	8,618	20.7	(4.0)
- MHCV	19,877	(17.3)	(48.6)
Atul Auto	8,974	18.0	4.3
Bajaj Auto	888,434	(10.7)	12.9
- 2W	775,714	(11.1)	10.8
- 3W	112,720	(7.8)	30.0
Eicher Motors	195,499	19.6	5.5
- 2W	183,998	24.8	5.8
- CV	11,501	(27.7)	0.3
Force Motors	6,442	(14.2)	(32.3)
Hero MotoCorp	1,849,375	6.0	14.0
M&M	201,501	2.7	2.1
- Auto	116,968	(3.8)	(3.2)
- Tractor	84,533	13.3	10.5
Maruti Suzuki	394,571	13.2	(4.8)
Tata Motors	248,691	(3.3)	(15.9)
- India	109,691	(10.6)	(9.2)
- JLR	1,39,000	3.5	(20.6)
SML Isuzu	3,140	(35.8)	(26.0)

Key Commodity Prices

Commodities	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18
CRC (USD/MT)	509	493	625	674	553
% QoQ	(9.4)	(11.3)	(3.2)	26.7	7.8
Aluminium (USD/MT)	1,572	1,620	1,710	1,851	1,905
% QoQ	3.8	3.0	5.6	8.2	2.9
Lead (USD/MT)	1,718	1,873	2,138	2,277	2,154
% QoQ	(1.3)	9.1	14.1	6.5	(5.4)
RSS4 (Rs/MT)	13,215	13,502	12,530	15,201	13,098
% QoQ	32.3	2.2	(7.2)	21.3	(13.8)

Source: Company, Bloomberg, HDFC Sec Inst Research

1QFY18E: Muted performance

- **In the M&HCV segment**, Tata Motors (TTMT) continued to lose market share, with 44% YoY dip in volumes. However, Ashok Leyland's (AL) volume decline was much lower at 17% YoY, which led to market share gain.
- **Most auto ancillaries** companies were impacted to a lesser degree than OEMs, as production of OEMs were higher than actual sales in this quarter. Most Tier-1 suppliers passed on input cost hikes to OEMs.
- **3W volumes remain disappointing** -3W volumes declined 9% YoY, as 25% growth in exports was offset by 25% decline in the domestic market. We believe that domestic 3W demand will start picking up from 2QFY18, led by rural demand.

Change in estimates and TP

- We cut Bajaj Auto, Force Motors and SML FY18E earnings by 3%/14%/16% respectively, factoring in lower volumes in 1QFY18. Thereby, the TP of Bajaj Auto and SML was reduced to Rs 3,296 and Rs 1,325 respectively.
- Given the steady market share improvement, rising rural contribution, reduced JPY exposure, improving share of premium products, healthy ROE/ROCE (26% in FY19E) and improving free cash flow, we believe **MSIL** will continue to trade at a premium. We increase our target multiple to 24x FY19E EPS, Rs 8,478 (from 20x earlier), upgrade to BUY. We are increasing our target multiple for **Ashok Leyland** to 9x FY19E EV/EBITDA, given improvement in return ratios and deleveraging the balance sheet, TP Rs 118. We have downgraded **Suprajit** to **Neutral** given the run up in stock price but increase our PE multiple to 20x FY19E (given the high return ratios), TP Rs 312.

3W Volume And Growth

Company	1QFY18	% YoY	% QoQ
Atul Auto	8,974	18.0	4.0
Bajaj Auto	112,720	(8.0)	30.0
Force Motors	532	(19.0)	23.0
M&M	10,792	(10.0)	(10.0)
Piaggio	37,260	(16.0)	8.0
Scooters India	43	(98.0)	(96.0)
TVS Motors	17,037	(2.0)	55.0
Total	187,358	(9.0)	21.0

Source: SIAM, HDFC Sec Inst Research

Outlook

- We continue to believe that post GST implementation, the stage is set for a revival in auto demand in FY18/FY19, on the back of **(1) Increase in government capital spending and focus on rural economy (2) Higher rural income with normal monsoon (3) Higher disposable income, with a rollout of the 7th Pay Commission , (4) Falling interest cost and (5) Low base effect.**
- In our coverage universe, **Maruti Suzuki, M&M are our top picks.** This is because they have an extensive distribution network and strong rural franchise, and would be major beneficiaries of demand revival in the next two years. **We also prefer Eicher and Force Motors, given the increasing preference for premium, stylish and differentiated vehicles.** We continue to **maintain our positive stance on Tata Motors**, as JLR's volume growth momentum is likely to continue with its healthy new product cycle and margin trajectory.

1QFY18E: RM Headwinds And Negative Oplev To Impact Margins

COMPANY	1QFY18 OUTLOOK	WHAT'S LIKELY	KEY MONITORABLES
Maruti Suzuki	GOOD	<ul style="list-style-type: none"> Expect 19% YoY growth in topline, aided by 13% volume and 6% net ASP improvement owing to richer product mix (higher share of Baleno and Brezza, with incremental production from the Gujarat Plant). EBITDA margin to improve by 50ps QOQ, led by lower average discount and richer product mix. 	<ul style="list-style-type: none"> Update on demand scenario, channel inventory, discounting trends and new launches. Gujarat plant product pipeline Impact of GST
Tata Motors	BAD	<ul style="list-style-type: none"> We expected consolidated revenue to fall by 7/22% on a YoY/QoQ basis, led by YoY (10%) and QoQ (9%) fall in standalone volumes and 21% QoQ drop in JLR volumes. Higher share of PVs to be negative for ASP and margins. EBITDA margins to contract by 128bps YoY to 11.8%, led by higher raw materials costs and low volumes. 	<ul style="list-style-type: none"> JLR's demand trends and outlook. Discounts/demand trend in the CV segment. Dealer stocking in CVs.
Bajaj Auto	BAD	<ul style="list-style-type: none"> We expect revenue decline of 6% YoY, led by 11% decline in volumes, offset by 5% increase in realisations. EBITDA margin to contract 120bps YoY, dragged by negative operating leverage, appreciation of Rupee and input cost pressure. 	<ul style="list-style-type: none"> Export demand outlook. Performance of new launches, specially Bajaj Dominar 400cc bike. Dealer compensation cost for ITC loss due to GST.
M&M	AVG	<ul style="list-style-type: none"> Topline to witness increase of 4% YoY, as tractor volume growth of 13% YoY offset weak auto volumes (-4%). YoY margin to be lower, owing to higher material costs. QoQ margin to expand owing to higher mix of profitable tractors. 	<ul style="list-style-type: none"> Outlook for UV and tractor businesses for FY18. Outlook on tractor growth for FY18. Product pipeline.

1QFY18E: RM headwinds And Negative Oplev To Impact Margins

COMPANY	1QFY18 OUTLOOK	WHAT'S LIKELY	KEY MONITORABLES
Eicher Motors	EXCELLENT	<ul style="list-style-type: none"> Consolidated revenue to grow 26% YoY. Higher RE volume (+25% YoY) offset the 28% decline in VECV. Margins to improve 88bps YoY, owing to strong margin of RE. 	<ul style="list-style-type: none"> Demand for RE at the retail level and order book position. GST impact and dealer compensation.
Hero MotoCorp	AVG	<ul style="list-style-type: none"> We expect revenue growth of 8% YoY, driven by 6% volume growth. Expect 205bps QoQ EBITDA margin expansion, led by benefit of operating leverage. 	<ul style="list-style-type: none"> Outlook for volume growth in 2QFY18 Cost related to dealer compensation for ITC loss owing to GST.
Ashok Leyland	AVG	<ul style="list-style-type: none"> Expect 2% YoY decline in the top-line, dragged by 8% fall in volumes, offset by 6% increase in net ASP. EBITDA margin to contract by 82bps YoY, on account of higher RM cost and poor product mix (M&HCV volume down by 17.3% YoY) 	<ul style="list-style-type: none"> Update on CV demand post BS-IV and GST, and discount trends. Comment on defence opportunity. Update on Hinduja Foundries and its profitability.
Bharat Forge	BAD	<ul style="list-style-type: none"> We expect BHFC's to grow ~9% YoY, as Class 8 Truck orders were strong, along with strong Oil & Gas and revival in Industrial segments Standalone EBITDA margin to expand by 250 bps YoY owing to improved volumes 	<ul style="list-style-type: none"> Outlook for Class 8 trucks in CY17/18 Outlook for industrial segments like Oil & Gas and mining Status of new aerospace, rail and defence orders
Exide Industries	AVG	<ul style="list-style-type: none"> Expect revenues to grow 7% YoY, owing to regaining market share in replacement the market, and higher volume in the OEM segment EBITDA margin to contract 157bps YoY, owing to an increase in lead prices. 	<ul style="list-style-type: none"> Outlook for growth and pricing in 2W/4W replacement segments. Outlook for growth in invertors' and EV batteries. Outlook on the insurance business.

1QFY18E: RM Headwinds And Negative Oplev To Impact Margins

COMPANY	1QFY18 OUTLOOK	WHAT'S LIKELY	KEY MONITORABLES
Balkrishna Industries	AVG	<ul style="list-style-type: none"> We expect revenues to grow by 12% YoY, led by 15% YoY volume growth, offset by a 3% drop in net realisations. We expect EBITDA margin to come down by 515bps YoY, owing to higher RM costs and other expenses 	<ul style="list-style-type: none"> Demand outlook across agri/OTR segments in US/Europe
ENDURANCE TECHNOLOGIES	GOOD	<ul style="list-style-type: none"> We expect 7% YoY growth in consolidated revenue, led by strong performance in export segments, offset by muted domestic revenue (owing to poor volumes of Bajaj Auto). EBITDA margins to improve by 59bps YoY, led by healthy growth in operating performance of European subsidiary. 	<ul style="list-style-type: none"> Outlook on ramp-up of orders with Hero and HMSI. Update on capacity expansion plan at Chennai plant. EU business: Level of ramp-up at new plant in Germany.
Force Motors	AVG	<ul style="list-style-type: none"> Expect revenue to grow 3% YoY, 8% fall in OEM's revenue was offset by higher revenue from sub-contracting business (+20% YoY). EBITDA margin to contract by 30bps YoY to 9.3%. 	<ul style="list-style-type: none"> Update on new launches. Comment on capex plan.
Suprajit Engineering	GOOD	<ul style="list-style-type: none"> Strong performance in the consolidated business (17% YoY growth in top line), aided by acquisition of Wescon Controls, QoQ performance to be driven by higher 2W volumes. EBITDA margin up 90bps YoY at 17%. 	<ul style="list-style-type: none"> Outlook on margins in SEL and Phoenix GST impact on aftermarket sales Performance of Wescon and the way forward
SML Isuzu	BAD	<ul style="list-style-type: none"> Expect 34% YoY fall in top-line, dragged by 36% volume decline, owing to pre-buying of BS3 vehicle and uncertainty ahead of GST. EBITDA margin to contract 426bps YoY to 9% led by negative oplev. 	<ul style="list-style-type: none"> Comment on new launches into the above-12 tonne buses and truck segment. Outlook on volume growth and margin for FY18.

1QFY18E: RM Headwinds And Negative Oplev To Impact Margins

COMPANY	1QFY18 OUTLOOK	WHAT'S LIKELY	KEY MONITORABLES
Jamna Auto	BAD	<ul style="list-style-type: none"> With a decline in MHCV volumes, we expect tonnage sales to fall 8% YoY, leading to 21% YoY drop in revenue Higher raw material costs and lower volumes to drag margins 117bps YoY 	<ul style="list-style-type: none"> Mix of conventional/parabolic springs for the quarter and outlook, going ahead Impact of GST on aftermarket sales
Atul Auto	AVG	<ul style="list-style-type: none"> Net sales to increase by 20% YoY , led by 18% growth in volume . Expect EBITDA margin to improve 210bps YoY to 11.5%, led by benefit of oplev 	<ul style="list-style-type: none"> 2QFY18 outlook for domestic 3W market Volume outlook and margin guidance for FY18
Ramkrishna Forgings	BAD	<ul style="list-style-type: none"> Revival in Class 8 truck orders to result in 10% YoY growth in topline EBIDTA margins are expected to decline 239bps YoY, owing to higher raw material costs 	<ul style="list-style-type: none"> Update on export orders of heavy press lines Increase in wallet share of domestic customers
Lumax Autotech	AVG	<ul style="list-style-type: none"> Top line to decline by 4% YoY , owing to a change in invoicing policy for the lighting business, offset by strong growth in the Sheet metal and Gear shifter business. EBIDTA margin is expected to improve 66bps YoY, owing to richer product mix. 	<ul style="list-style-type: none"> Update on growth of value-added products like seat frame and Automatic Gear shifter business. Margin guidance for FY18.

1QFY18E: RM Headwinds And Negative Oplev To Impact Margins

COMPANY	1QFY18 OUTLOOK	WHAT'S LIKELY	KEY MONITORABLES
Subros	GOOD	<ul style="list-style-type: none"> ▪ Healthy topline growth of 16% YoY driven by strong growth in PV sales and incremental revenue from new biz verticals like bus/truck ACs and radiators. ▪ EBITDA margin to improve 196 bps YoY to 11% 	<ul style="list-style-type: none"> ▪ Comment on new biz like AC for CV and radiators ▪ Capex and Debt repayment guidance
NRB Bearings	AVG	<ul style="list-style-type: none"> ▪ We expect top line to grow 7% YoY, owing to strong 2W volume growth ▪ Margin to contract by 119bps YoY to 15.8%, led by higher other expenses. 	<ul style="list-style-type: none"> ▪ Export growth and outlook ▪ Aftermarket growth and outlook

1QFY18E: Financial summary

COMPANY	NET SALES (Rs bn)			EBITDA (Rs bn)			EBITDA Margin (%)			APAT (Rs bn)			Adj. EPS		
	1Q FY18E	QoQ (%)	YoY (%)	1Q FY18E	QoQ (%)	YoY (%)	1Q FY18E	QoQ (bps)	YoY (bps)	1Q FY18E	QoQ (%)	YoY (%)	1Q FY18E	3Q FY17	4Q FY16
AUTOS															
Maruti Suzuki	177.5	(3.2)	18.9	25.6	0.1	15.7	14.4	47.5	(40.1)	16.9	(1.4)	13.4	55.8	56.6	49.2
Tata Motors	602.7	(21.9)	(7.2)	71.0	(39.7)	(16.3)	11.8	(348.1)	(128.0)	11.4	(73.8)	(35.9)	4.6	12.9	5.2
Bajaj Auto	54.0	10.3	(6.0)	10.4	14.9	(11.5)	19.3	75.7	(120.9)	8.9	11.1	(8.9)	30.8	27.7	33.8
M&M	109.2	2.9	3.7	15.3	8.6	2.7	14.0	73.4	(14.3)	8.8	(15.3)	(8.0)	15.0	17.7	16.3
Eicher Motors	19.6	3.7	25.5	6.2	4.9	29.1	31.7	33.6	88.8	4.4	6.3	29.8	161.1	151.5	124.2
Hero MotoCorp	79.9	15.5	8.0	12.7	32.7	3.3	15.9	205.3	(72.5)	9.0	25.6	2.1	45.1	35.9	44.2
Ashok Leyland	41.8	(36.9)	(2.0)	4.4	(39.9)	(9.1)	10.5	(52.9)	(81.9)	2.1	(56.3)	(13.7)	0.7	1.7	0.8
Force Motors	7.7	(7.4)	2.8	0.7	(22.1)	(0.4)	9.3	(177.1)	(30.2)	0.4	(21.3)	(16.1)	32.8	41.7	39.1
SML Isuzu	3.0	(18.4)	(34.6)	0.3	38.7	(55.7)	9.0	368.5	(426.1)	0.2	71.1	(63.2)	10.5	6.1	28.4
Atul Auto	1.1	7.3	19.9	0.13	24.6	47.2	11.6	160.6	214.8	0.1	31.9	63.2	3.7	2.8	2.3
Aggregate	1,096.4	(13.9)	(0.8)	146.7	(22.6)	(6.3)	13.4	(149.8)	(77.7)	62.1	(34.6)	(7.8)	-	-	-
Aggregate (ex-TTMT)	493.7	-2.1	7.8	75.7	4.3	5.1	15.2	93.5	(39.3)	50.7	-2.8	2.0	-	-	-
AUTO ANCS															
Bharat Forge	11.0	(2.4)	14.8	3.2	(1.6)	25.7	29.0	22.3	252.0	1.8	2.1	35.1	7.6	7.5	5.6
Balkrishna Industries	10.2	1.7	12.0	2.8	10.7	(5.5)	27.7	226.7	(514.8)	1.6	17.3	(5.7)	16.7	14.2	17.7
Exide Industries	21.5	8.9	7.0	3.0	15.9	(3.7)	14.1	84.5	(156.7)	1.9	16.5	(2.1)	2.3	1.9	2.3
Endurance Tech	14.6	6.9	3.0	2.0	11.8	6.1	13.4	58.6	39.5	0.9	7.1	7.5	6.4	5.9	5.9
Suprajit Engineering	3.4	(5.8)	35.0	0.6	(10.6)	42.5	17.0	(90.5)	89.1	0.3	8.3	57.2	2.7	2.5	1.7
Jamna Auto	2.6	(31.5)	(20.9)	0.4	(30.6)	(26.7)	14.8	19.4	(117.1)	0.2	(41.8)	(24.7)	2.6	4.5	3.4
Ramkrishna Forgings	2.3	(17.4)	10.0	0.4	(28.3)	(3.3)	17.4	(265.7)	(238.8)	0.03	(77.8)	(49.8)	1.1	5.1	2.3
Subros	3.8	(9.1)	16.0	0.4	(10.0)	41.5	10.9	(11.0)	196.2	0.1	(42.8)	162.9	1.3	1.2	0.5
NRB Bearings	1.8	(2.3)	7.0	0.3	8.3	(0.5)	15.8	154.8	(119.1)	0.1	11.9	2.8	1.5	1.3	1.5
Lumax Auto	2.6	13.8	(4.3)	0.2	69.4	4.0	8.1	265.6	64.0	0.13	93.6	13.2	9.5	4.9	8.4
Aggregate	73.9	1.3	7.4	13.3	4.0	5.0	18.8	47.7	(44.1)	7.1	5.8	7.2	-	-	-

1QFY18E: Peer Valuation

	Mcap (Rs bn)	CMP (Rs/sh)	Reco	TP	Adj EPS (Rs/sh)			P/E (x)			EV/EBITDA (x)			RoE (%)		
					FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E
AUTOS																
Maruti Suzuki	2,253	7,457	BUY	8,478	242.9	272.4	353.3	30.7	27.4	21.1	21.6	18.7	14.3	23.2	22.4	26.3
Tata Motors	1,552	457	BUY	542	30.2	34.6	49.3	15.1	13.2	9.3	7.1	5.0	3.8	12.2	12.7	15.8
M&M	821	1,390	BUY	1,556	56.6	75.8	86.4	24.5	18.3	16.1	13.8	11.5	9.1	14.4	17.5	17.7
Bajaj Auto	808	2,793	BUY	3,296	132.3	146.7	165.6	21.1	19.0	16.9	15.2	12.4	10.7	26.1	23.9	24.3
Eicher Motors	762	28,131	BUY	31,934	624.3	804.9	1,010.0	45.1	34.9	27.9	32.9	25.9	21.0	39.4	38.9	39.3
Hero MotoCorp	749	3,748	NEU	3,740	169.1	182.1	208.0	22.2	20.6	18.0	15.1	13.9	12.2	35.6	33.9	34.8
Ashok Leyland	299	105	BUY	118	4.3	6.0	7.4	24.5	17.4	14.2	13.3	10.0	8.3	20.7	26.2	27.8
Force Motors	56	4,224	BUY	5,350	137.3	171.1	253.7	30.8	24.7	16.7	20.7	15.1	10.3	11.4	12.7	16.4
SML Isuzu	17	1,186	BUY	1,325	43.4	48.2	66.2	27.3	24.6	17.9	16.2	14.3	10.6	16.9	16.5	20.0
Atul Auto	9	415	BUY	528	17.7	26.2	31.1	23.4	15.8	13.4	13.2	9.2	7.7	23.1	28.5	27.7
AUTO ANCS																
Bharat Forge	257	1,103	NEU	1,014	24.8	31.0	40.0	44.6	35.6	27.6	19.9	17.2	14.1	15.6	17.5	19.6
Balkrishna Industries	165	1,708	NEU	1,414	74.0	89.2	101.0	23.1	19.1	16.9	14.7	12.1	11.1	29.9	30.6	30.1
Exide Industries	162	191	BUY	262	8.2	9.3	11.2	23.4	20.5	17.0	14.0	13.3	11.4	17.6	21.4	22.1
Endurance Tech	124	880	NEU	810	23.5	29.1	35.4	37.4	30.3	24.8	17.1	14.4	12.1	20.0	20.1	20.5
Suprajit Engineering	40	305	NEU	312	8.9	11.9	15.6	34.1	25.6	19.5	20.1	15.6	12.7	23.3	24.8	26.0
Jamna Auto	21	260	BUY	264	11.1	13.2	17.7	23.4	19.6	14.7	11.1	9.5	7.3	31.5	30.1	33.0
Ramkrishna Forgings	15	528	NEU	448	8.3	24.4	37.0	63.7	21.6	14.3	13.9	9.9	8.1	4.9	13.4	17.8
Subros	15	255	NR		5.9	10.0	13.8	43.5	25.5	18.4	9.1	6.8	5.4	10.1	15.7	19.3
NRB Bearings	13	134	BUY	161	5.6	6.0	7.3	24.1	22.5	18.3	12.9	11.4	9.8	18.1	17.1	18.6
Lumax Auto	7	554	BUY	681	23.5	29.1	35.4	23.5	19.0	15.6	9.1	6.8	5.5	12.3	15.4	16.7

Source : Company, HDFC sec Inst Research

INSTITUTIONAL RESEARCH

Rating Definitions

BUY	: Where the stock is expected to deliver more than 10% returns over the next 12 month period
NEUTRAL	: Where the stock is expected to deliver (-) 10% to 10% returns over the next 12 month period
SELL	: Where the stock is expected to deliver less than (-) 10% returns over the next 12 month period

Disclosure:

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