

Ashok Leyland	
Rating	Hold
TP	135
PE	28x
Bajaj Auto	
Rating	Hold
TP	4509
PE	20x
Hero MotoCorp	
Rating	Hold
TP	3,689
PE	17x
Maruti Suzuki	
Rating	Hold
TP	8,073
PE	30x
M&M	
Rating	Buy
TP	1,038
PE	20.5x
TVS Motors	
Rating	Hold
TP	590
PE	25x

Source: Arihant Research

Commodity cost inflation keeps margins under pressure

Prices of major commodities such as steel, aluminum, copper and rubber have increased sharply in the past quarter, which would be a negative for gross margin of the companies in coming quarters. Most OEMs have taken price hikes from January and will take a further price hike in April to partly counter the negative impact of the same.

However, the auto industry continued to benefit from relatively healthy demand trends in the post-festive months, with a sharp sequential jump in the CV space being a particular highlight. Broad-based general positivity stayed intact as other segments (ex-3-W, buses) i.e. 2-W, PV and tractors, also performed well.

For our auto coverage universe, topline performance is expected to be robust in YoY terms amid double digit volume growth, BS-VI price hikes and base effect (Covid impacted Q4FY20). **Our Preferred pick MM and MSIL are our top picks.**

MHCV catches up with industry growth momentum, 2W slows down

Strong retail momentum was seen in Tractors and PVs, whereas 2W retail was marginally lower than last year. On a two-year CAGR basis (v/s 4QFY19), wholesale volumes grew strongly for Tractors (+20.3% CAGR, -10% QoQ), while PVs (+2.4% CAGR, +9.3% QoQ) and 2Ws (+0.3% CAGR, -7% QoQ) recovered to 4QFY19 levels.

PVs maintained the strong growth momentum, while 2Ws witnessed some slowdown in demand. Among CVs, LCVs (-4.1% CAGR, +11% QoQ) saw good recovery on a 4QFY19 base and M&HCVs (-19% CAGR, +43% QoQ) saw strong sequential growth. 3Ws (-18% CAGR, +12.6% QoQ) is seeing sequential recovery in volumes. With a low starting inventory, PVs, CVs, and Tractors saw a waiting period owing to good retail momentum, whereas 2Ws reported slow demand in 4QFY21.

Key to watch

We would watch out for management commentary on new launches, price hikes, measures to control raw material inflation, and margin sustenance. Due to new lockdowns imposed in certain states like Maharashtra and Karnataka, showrooms are shut with zero walk-ins, thereby impacting retail sales.

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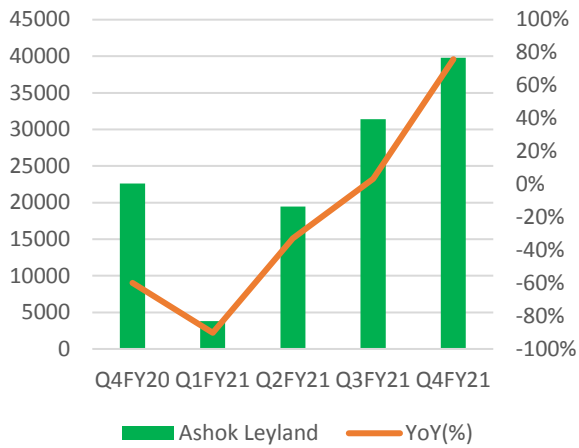
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Q4FY21 Earnings Estimates:

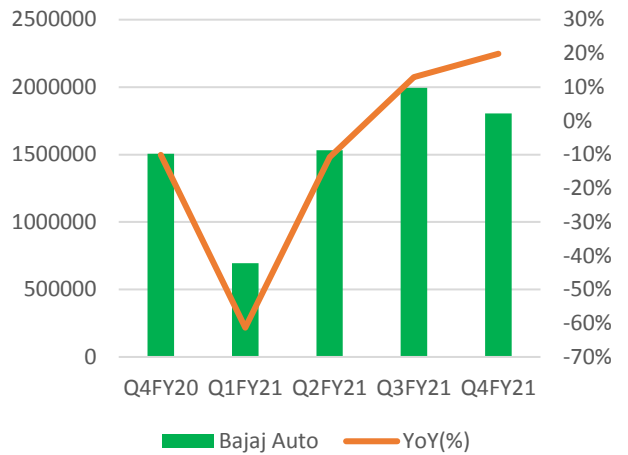
INR (Mn)	Q4FY21E	Q4FY20A	Q3FY21A	YoY	QoQ	Remarks
Hero MotoCorp						
Net Revenue	88,010	62,384	97,758	41%	-10%	
EBITDA	11,873	6,599	14,139	80%	-16%	Strong entry-level portfolio and robust rural recovery bode well for FY22 volumes. While RM cost inflation impact to get diluted by
EBITDA Margin	13%	11%	14%	291bps	-389bps	price increases taken in Oct'20 and Jan'21
PAT	9,046	6,207	10,845	46%	-17%	
Maruti Suzuki						
Net Revenue	2,06,068	1,81,987	2,34,578	13%	-12%	Strong demand and supply-side constraints result in minimal
EBITDA	16,818	15,464	22,261	9%	-24%	channel inventory. Jan-21 price hike, discount moderation and mix
EBITDA Margin	8%	8%	9%	-34bps	-99bps	to drive QoQ margin improvement. While Mix normalizes with
PAT	12,028	12,917	19,414	-7%	-38%	more customers going for premium models
Ashok Leyland						
Net Revenue	53,226	39,733	28,222	34%	89%	
EBITDA	3,136	2,252	804	39%	290%	EBITDA is expected at INR 3,136 with corresponding margins at 6%,
EBITDA Margin	6%	6%	3%	22bps	282bps	up 282bps QoQ with high operating leverage benefits mitigating
PAT	127	299	-1,450	-57%	-109%	the impact of rise in commodity prices.
TVS Motors						
Net Revenue	44,431	34,814	53,914	28%	-18%	
EBITDA	3,919	2,449	5,111	60%	-23%	We expect EBITDA margin to decline by 245bps QoQ as input cost
EBITDA Margin	8.8%	7%	9%	179bps	-245bps	hikes is partially offset by tight cost-control measures, better mix
PAT	2,200	1,423	2,656	54%	-18%	and pricing actions.
Bajaj Auto						
Net Revenue	79,825	68,159	89,099	17%	-10%	
EBITDA	14,193	12,528	17,296	13%	-18%	Strong 2W export growth offset by slow 3W growth and Focus on
EBITDA Margin	18%	18%	19%	-60bps	-103bps	cost-cutting to drive margin improvement despite lower export
PAT	13,707	13,103	15,563	5%	-12%	incentives.
M&M						
Net Revenue	1,29,374	90,047	1,40,565	44%	-8%	
EBITDA	15,303	12,275	23,856	25%	-36%	Faster than expected recovery in LCV segment. SUV business sees
EBITDA Margin	12%	14%	17%	-180bps	-334bps	good demand, but restricted by supplychain constraints. However
PAT	9,916	3,226	17,448	207%	-43%	Margin impacted by high RM cost.

Source: Arihant Research

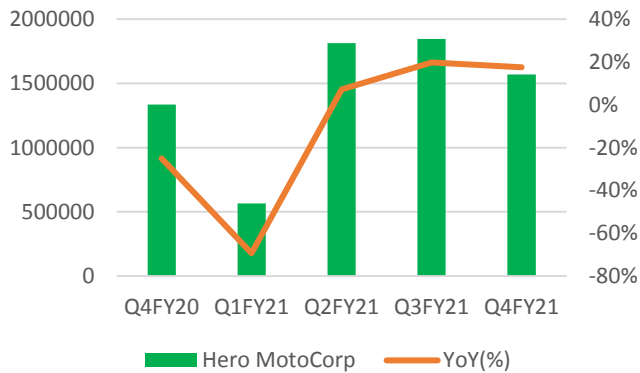
Ashok Leyland



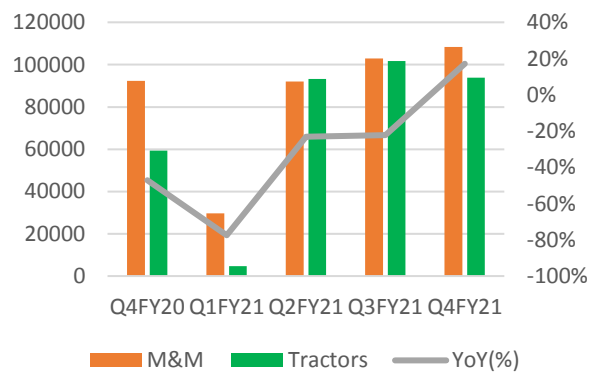
Bajaj Auto



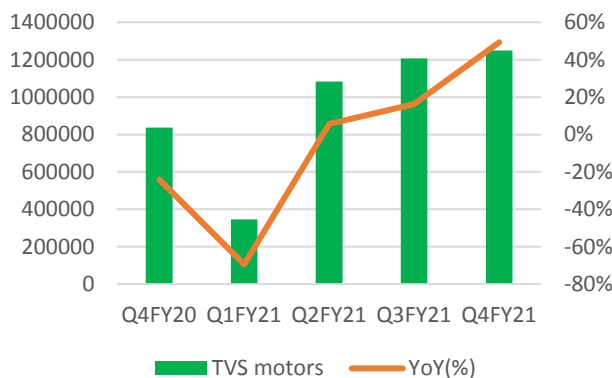
Hero MotoCorp



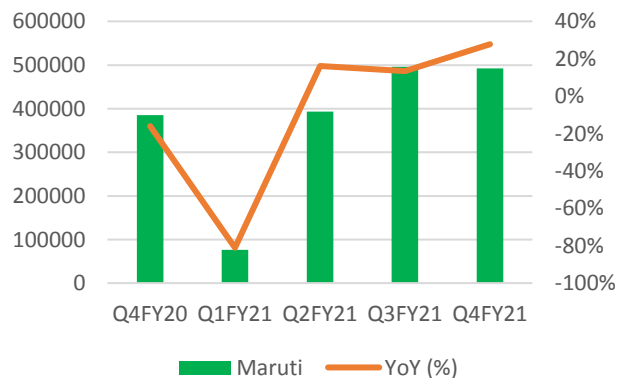
M&M



TVS motors



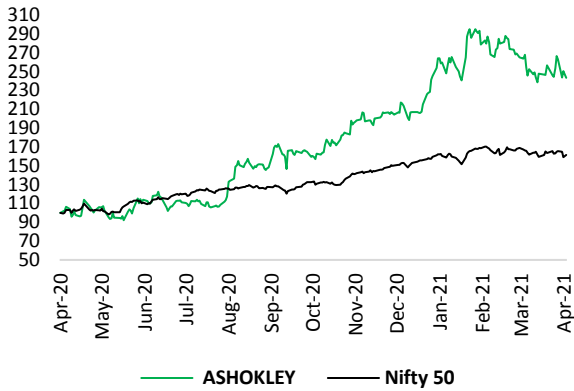
Maruti



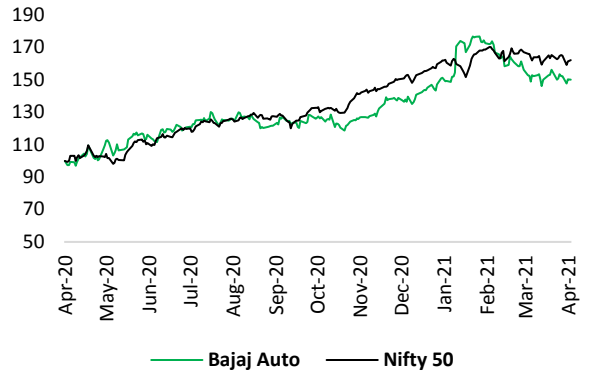
Source: Arianth Research

Price Performance - Charts with Nifty Index Comparison

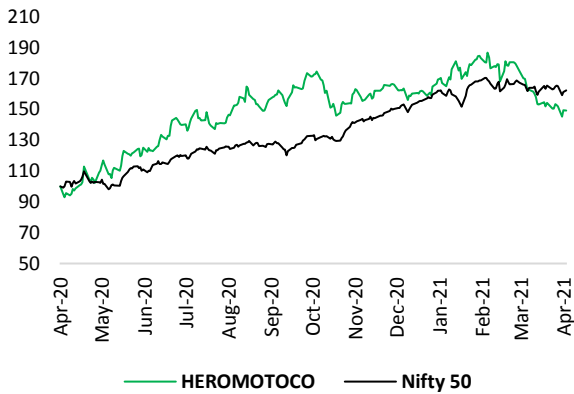
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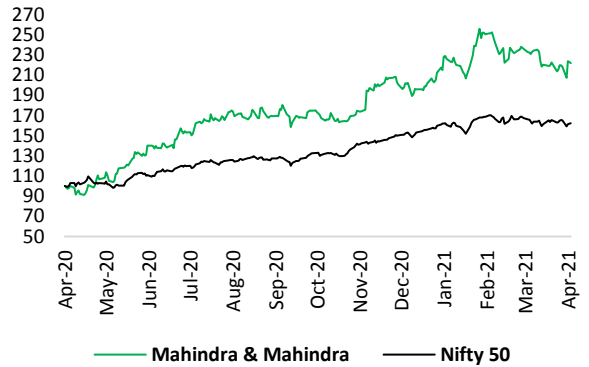
Bajaj Auto



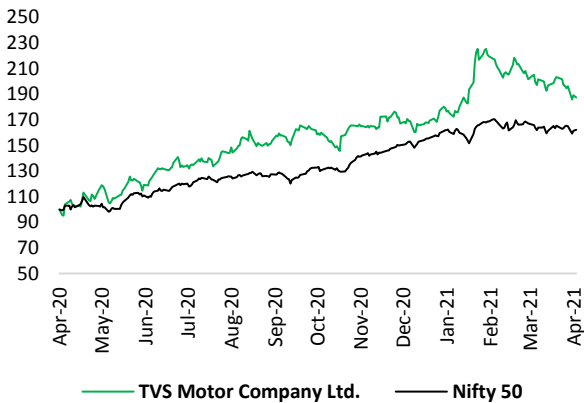
Hero MotoCorp



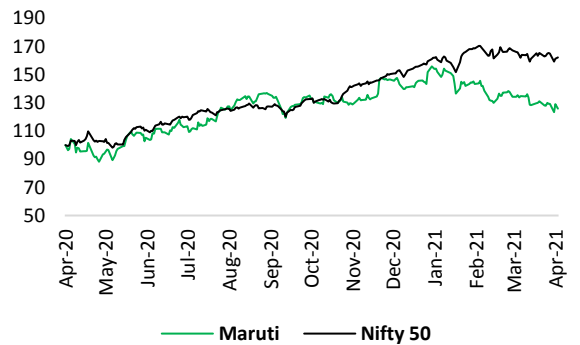
Mahindra and Mahindra



TVS motors



Maruti



Source: NSE, Arianth Research

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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