13th April 2022

Auto Sector_ Q4FY22 Preview

Demand dynamics with price hikes, remain a key watchful

Ashok Leyland	
Rating	Hold
TP	123
PEFY24E	~23x
Bajaj Auto	
Rating	Buy
TP	4,075
PE FY24E	~17X
Hero MotoCorp	
Rating	Buy
TP	3,738
PE FY24E	11X
Maruti Suzuki	
Rating	Hold
TP	6,945
PE FY24E	23x
M&M	
Rating	Buy
TP	1,077
PE FY24E	15x
TVS Motors	
Rating	Accumulate
TP	735
PE FY24E	~22x

Source: Arihant Research

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We expect earnings trajectory of Auto companies to improve sequentially led by the expectation of sharp development on the PV, CV and OEMs front. CV demand was supported by improving fleet operators' profitability and higher fleet utilization levels, though it was offset by subdued demand in the domestic 2W segment due to the rising input cost. In Q4FY22, management commentary will be critical as raw material headwinds are likely to impact the profitability going forward in Q1FY23. **In this context, demand dynamics with price hikes remain a key watchful for the sector.**

The 2Ws segment in rural and semi-urban markets were the worst affected since the 2nd COVID-19 wave. However, the 2W segment in the rural market is witnessing recovery as expectations are high for Rabi harvest, monsoons and upcoming weeding season. We expect 2Ws to report fall in EBITDA both on QoQ/YoY basis, owing to weak volumes and rise in input prices (aluminum), partially offset by price hikes. Tractors may also see QoQ/YoY fall in EBITDA due to weak volumes.

The PVs Segment has performed reasonably well than other segment. Inquiry levels have recovered compared to starting of the year. The companies are expecting better recovery in PVs sales due to the preference for personal mobility.

CVs: We are expecting demand to witness a recovery towards the 4QFY22 being a seasonally strong quarter for the segment. This would reflect in the results of Maruti, Ashok, and M&M's.

Commodity cost inflation keeps margin under pressure

The commodities, particularly aluminium, nickel, and palladium, have seen a sharp sequentially increase on an already elevated base of 3QFY22. The auto companies could see a set of price hikes due to the rising price curve of commodities.

View and outlook:

The Growth in the Auto ancillary sector is expected to remain subdued in the Q4FY22 due to raw material price headwinds. But, we expect ancillaries which have higher exposure to OEMs and have exposure to replacement market should show better results as compared to other OEMs. Among Auto sector, we expect growth from CVs (led by demand for Infrastructure and good fleet utilisation). Also, ancillaries with exposure to export market will show decent growth.

In Q4FY22 earnings are likely to hold up well due to seasonal uptick in India CV and PV revenue as well as better revenue mix (3Q included a low-margin cylinder order).

Among auto sector, our Preferred picks are Bajaj Auto, HeroMoto Corp and M&M.

Q4FY22 Earnings Estimates:

Auto Preview for Q4FY22						
Ashok Leyland (Mn)	**Q4FY22E**	**Q3FY21A**	**Q4FY21A**	**YoY**	**QoQ**	**Remarks**
Voumes (Units)	48,719	34,077	44,060	11%	43%	We expect Net revenue to increased 11% YoY led by volume growth as well as realization improvement.
Net Revenue	81,193	55,352	70,005	16%	47%	
EBITDA	6,244	2,239	5,342	17%	NA	While EBITDA expand driven by higher operating margin On the PAT front we expect increased of 46% on YoY
EBITDA Margin	7.7%	4.0%	7.6%	6bps	NA	
PAT	2,980	-363	2,038	46%	NA	PAT is expected to increased by 46% YoY.
Bajaj Auto (Mn)	**Q4FY22E**	**Q3FY21A**	**Q4FY21A**	**YoY**	**QoQ**	**Remarks**
Voumes (Units)	976,651	1,181,361	1,169,656	-17%	-17%	Revenue is expected to de-grow by 12% YoY in-line with volume decline.
Net Revenue	75,646	90,217	85,961	-12%	-16%	
EBITDA	10,835	13,721	15,241	-29%	-21%	EBITDA margin is likely to contract by 341bps QoQ due to commodity inflation and lower operating leverage.
EBITDA Margin	14.3%	15.2%	17.7%	-341bps	-89bps	
PAT	10,123	12,141	13,320	-24%	-17%	PAT is expected to decline by 21% YoY.
Greaves Cotton (Mn)	**Q4FY22E**	**Q3FY21A**	**Q4FY21A**	**YoY**	**QoQ**	**Remarks**
Net Revenue	4,950	3,005	4,570	8%	65%	Revenue is expected to be flattish on YoY basis led by 13% YoY.
EBITDA	470	172	473	-1%	NA	Margin is likely to decline by 463bps YoY due to commodity inflation and lower operating leverage.
EBITDA Margin	9.5%	5.7%	10.4%	-86bps	NA	
PAT	280	84	239	17%	NA	PAT is expected to grew by 17% YoY.
Hero Motocorp INR (Mn)	**Q4FY22E**	**Q3FY21A**	**Q4FY21A**	**YoY**	**QoQ**	**Remarks**
Voumes (Units)	1,568,313	1,292,136	1,188,884	-24%	-8%	Volumes declined by 24% YoY on account of muted demand in rural areas & increase in total cost of acquisition of 2Ws.
Net Revenue	73,831	78,833	86,860	-15%	-6%	
EBITDA	9,042	9,600	12,112	-25%	-6%	Revenue is likely to decline by 15% YoY , led lower sales.
EBITDA Margin	12.2%	12.2%	13.9%	-170bps	7bps	EBITDA margin is likely to contract by 170YoY bps due to commodity inflation and lower operating leverage.
PAT	6,571	6,861	8,650	-24%	-4%	PAT is expected to decline by 24% YoY.
Mahindra & Mahindra (Mn)	**Q4FY22E**	**Q3FY21A**	**Q4FY21A**	**YoY**	**QoQ**	**Remarks**
Voumes (Units)	155,902	121,167	108,329	44%	29%	Revenue is expected to be grow on YoY basis led by 10% QoQ volume increased by 29% QoQ44%YoY.
Tractor Volume	93,894	92,967	72,882	-22%	-22%	
Net Revenue	167,627	152,388	133,382	26%	10%	
EBITDA	18,474	18,058	19,278	-4%	2%	
EBITDA Margin	11.0%	11.9%	14.5%	-343bps	-83bps	Margin is likely to decline by 343bps YoY, led by unrecovered RM inflation and negative operating leverage.
PAT	14,511	13,531	9,697	50%	7%	
Maruti Suzuki (Mn)	**Q4FY22E**	**Q3FY21A**	**Q4FY21A**	**YoY**	**QoQ**	**Remarks**
Voumes (Units)	4,92,235	430,668	488,830	-1%	14%	Revenue is expected to grew on YoY basis led by volume growth and improvement in realization growth owing to price hikes and improved product-mix.
Net Revenue	267,329	232,460	240,237	11%	15%	
EBITDA	19,184	15,590	19,911	-4%	23%	
EBITDA Margin	7.2%	6.7%	8.3%	-111bps	47bps	Margin is likely to decline by 158bps YoY, led by operating leverage benefits, lower discounts (as a % of ASPs) due to higher retail sales and cost cutting initiatives.
PAT	12,303	10,113	11,661	6%	22%	
TVS Motors (Mn)	**Q4FY22E**	**Q3FY21A**	**Q4FY21A**	**YoY**	**QoQ**	**Remarks**
Voumes (Units)	927,579	878,659	856,456	-8%	-3%	Volumes declined by 8% YoY primarily due to weak domestic demand
Net Revenue	55,923	57,064	53,219	5%	-2%	Revenue is expected to grew on QoQ basis despite volume de-growth.
EBITDA	5,840	5,683	5,361	9%	3%	Margin is likely to contract by 252bps QOQ due to commodity inflation and negative operating leverage.
EBITDA Margin	10.4%	10.0%	10.1%	37bps	48bps	
PAT	3,126	2,883	2,892	8%	8%	

Source: Arihant 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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