

# **Consumer (Auto, Auto Anc.)**

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## ***1QFY19E Results Preview***

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# 1QFY19E: Healthy Rural Sales Momentum Driving Earnings

- Automobiles sector will report a stellar quarter in 1Q led by strong recovery in rural demand, government spending on infrastructure, new launches and low base(led by BS1V and GST transitions). Most OEMs are likely to report high double-digit revenue growth, with Ashok Leyland (+51% YoY) Bajaj Auto (+45%) and MSIL(+28%) being the stand out performers. Excluding TTMT, Auto OEM universe is expected to post 30% revenue and 43% YoY EBITDA growth.** Even Auto Ancillaries would also mirror this strong revenue performance(+28 % YoY)
- During the quarter PVs/2Ws segment posted 16/15% YoY volume growth driven by healthy rural sales momentum.** CV volume jumped 50% YoY on low base driven by pick-up in construction/mining activities and cyclical recovery in LCVs.
- EBITDA margin for our Auto OEM universe (ex-TTMT) expected to expand 146bps YoY to 15%.** RM cost inflation was offset through price increase and strong volume growth. On RM front, increase in CR Steel sheet (+7% QoQ in INR term) and Aluminum (6% QoQ) was offset by fall in Lead (-3% QoQ) and Rubber prices (-3% QoQ).
- In the PV segment, healthy volume growth coupled with favorable mix will lead to 44% YoY EBITDA growth for MSIL.**
- In 2W space, Bajaj Auto will report a 64% YoY improvement in EBITDA led by 38% YoY increase in volumes** while Hero Motocorp, likely to see 50 bps YoY contraction in in EBITDA margin due to input cost pressures.

## 1QFY19 Volume Summary

Company	1QFY19	% YoY	% QoQ
<b>Ashok Leyland</b>	42,127	47.8	(28.3)
- LCV	11,481	33.2	(19.8)
- MHCV	30,646	54.2	(31.0)
<b>Atul Auto</b>	10,568	17.8	(9.1)
<b>Bajaj Auto</b>	1,226,641	38.1	17.3
- 2W	1,029,964	32.8	20.3
- 3W	196,677	74.5	4.1
<b>Eicher Motors</b>	241,687	23.6	(3.3)
- 2W	225,361	22.5	(0.7)
- CV	16,326	41.9	(29.1)
<b>Force Motors</b>	6,772	5.1	(33.2)
<b>Hero MotoCorp</b>	2,104,949	13.5	5.2
<b>M&amp;M</b>	240,885	19.1	2.1
- Auto	140,101	19.6	(15.2)
- Tractor	100,784	18.6	42.7
<b>Maruti Suzuki</b>	490,479	24.3	6.2
<b>Tata Motors</b>	320,413	29.1	(17.2)
- India	176,534	60.9	(13.6)
-* JLR	143,879	3.9	(21.3)
<b>SML Isuzu</b>	4,154	32.3	12.3

## Key Commodity Prices

Commodities	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
CRC (USD/MT)	553	678	720	758	778
% QoQ	(18.0)	22.7	6.2	5.3	2.7
Aluminium (USD/MT)	1,905	2,008	2,109	2,153	2,258
% QoQ	2.9	5.4	5.0	2.1	4.9
Lead (USD/MT)	2,154	2,327	2,485	2,520	2,380
% QoQ	(5.4)	8.0	6.8	1.4	(5.6)
RSS4 (Rs/MT)	13,200	13,300	13,120	12,500	12,360
% QoQ	(13.2)	0.8	(1.4)	(4.7)	(1.1)

Source: Company, Bloomberg, HDFC Sec Inst Research , \*expected

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- In CV segment, AL is likely to report strong EBITDA growth (+109% YoY) led by operating leverage benefit and better tonnage mix (M&HCV volumes up 54% YoY).** TTML is likely to report 157bps margin contraction sequentially owing to lower scale in JLR and commodity inflation. We expect JLR EBITDA margin contract 214bps QoQ to 10% while standalone margin to improve by 122bps to 8%.
- Most auto ancillary companies are expected to show strong numbers led by sturdy industry volume growth and ability pass on the impact of higher RM costs. **In our auto ancillary companies' coverage, we expect significant growth in net profit of RK Forging (+263% YoY), Jamna Auto (78% YoY), NRB Bearings (+60% YoY), Lumax Autotech (+57% YoY) and Subros(+52% YoY).**
- FY18 domestic tractor industry has delivered a volume growth of 22% to 711k units. The strong growth had been led by government's subsidy support and normal monsoons. For FY19, we estimate the domestic industry volumes to grow at ~8% in line with historic/long term average. Nevertheless, government support owing to elections and good monsoons may act as catalyst. **Swaraj Engines, a pure play tractor engine supplier is our top pick (upside of 31%).**

## Change in estimates

- We have lowered our FY19/20 EPS estimates by 22/25% along with multiple (18x from 19x) for Force Motors factoring in

lower than expected volume growth in OEMs segment in 1QFY19, thereby reduced the Fair value to Rs 3432(18x FY20E EPS). As stock price of Suprajit Engineering corrected by +20% in two months, we change our rating from Neutral to BUY.

## Outlook

- Demand outlook for FY19 is positive across segments, driven by healthy rural sales momentum, expectation of normal monsoon for the third year in a row, and a pick-up in economic activities.** Key threats to demand are posed by inflationary fuel prices and higher interest rates. Our top picks are Ashok Leyland, Bajaj Auto, and Hero Motocorp among the large caps, and Lumax Auto, JBM Auto and Jamna Auto among the mid/small caps space. We continue to like MSIL's unique moats, although valuation leaves little room for an upside.

## Top Performers of 1QFY19E

Company	PAT(Rs bn)	% QoQ	% YoY
SML Isuzu	0.26	77.06	287.12
RK Forgings	0.33	(3.90)	263.28
Ashok Leyland	3.73	(44.11)	235.17
Jamna Auto	0.31	(33.85)	77.58
NRB Bearings	0.20	(23.98)	60.43
Lumax Auto	0.14	8.86	57.08

Source: Company, HDFC Sec Inst Research

# 1QFY19E: Better Product Mix, Operating Leverage To Offset RM Cost Inflation

COMPANY	1QFY19 OUTLOOK	WHAT'S LIKELY	KEY MONITORABLES
Maruti Suzuki	Excellent	<ul style="list-style-type: none"> <li>Expect 28% YoY growth in top-line, aided by 24% volume and 4% net ASP improvement owing to richer product mix and lower discounts on newly-launched models</li> <li>EBITDA margin to expand by 169bps YoY(+73bps QoQ) to 15% led by operating leverage benefit.</li> </ul>	<ul style="list-style-type: none"> <li>Update on demand scenario, channel inventory, discounting trends and new launches</li> <li>Gujarat plant product pipeline</li> <li>New development on EV space</li> </ul>
Tata Motors	AVG	<ul style="list-style-type: none"> <li>We expect consolidated revenue growth of 23% YoY, led by 87% YoY jump in standalone volumes (both PV and CV supported growth) and translation gains in JLR (GBP appreciated 11% YoY against INR)</li> <li>EBITDA margins to contract by 157 bps QoQ to 11.5%, led by commodity inflation and lower JLR's scale</li> <li>Standalone EBITDA margin would be 8.1% (+122bp QoQ), led by operating leverage.</li> </ul>	<ul style="list-style-type: none"> <li>JLR's demand trends and outlook</li> <li>Impact of forex hedge loss</li> <li>Update on Chery JV</li> </ul>
Bajaj Auto	Excellent	<ul style="list-style-type: none"> <li>We expect revenue to jump by 45% YoY, led by 38% increase in volumes. Total motorcycle volume increased 33% YoY while 3W volume jumped 74% YoY</li> <li>We expect operating margins to see improvement of 228 bps YoY (flat QoQ) to 19.5%, led by operating leverage benefit and better product mix (higher share of 3Ws)</li> </ul>	<ul style="list-style-type: none"> <li>Export demand outlook</li> <li>Product actions in pipeline</li> <li>New developments in the EV space</li> </ul>
Hero MotoCorp	AVG	<ul style="list-style-type: none"> <li>We expect revenue growth of 13% YoY, driven by 13% volume growth.</li> <li>Expect margin to contract by 52bps YoY to 15.7% led by input cost pressure</li> </ul>	<ul style="list-style-type: none"> <li>Update on demand trend in rural and urban markets</li> <li>Update on new launches (especially 125cc scooter segment) along with timelines.</li> </ul>

# 1QFY19E: Better Product Mix, Operating Leverage To Offset RM Cost Inflation

COMPANY	1QFY19 OUTLOOK	WHAT'S LIKELY	KEY MONITORABLES
Ashok Leyland	EXCELLENT	<ul style="list-style-type: none"> <li>Expect 51% YoY growth in top-line, driven by 48% jump in volumes and 3% increase in net ASP.</li> <li>EBITDA margin to see expansion of 273 bps YoY to 10%, led by operating leverage benefit and favorable mix.</li> </ul>	<ul style="list-style-type: none"> <li>Outlook on CV demand in FY19</li> <li>Comment on Defence opportunity</li> <li>Capex and investment guidance for FY19.</li> </ul>
Force Motors	GOOD	<ul style="list-style-type: none"> <li>Expect revenue to grow 11% YoY, led by 5% volume growth in OEMs business and 10% revenue growth in sub-contracting business led by strong luxury car sales volume.</li> <li>EBITDA margin to expand 349bps YoY to 8.5% owing to favourable revenue mix(higher share of OEMs revenue)</li> </ul>	<ul style="list-style-type: none"> <li>Update on new launches</li> <li>Update on New venture with RR power system ltd</li> <li>Comment on capex plan</li> </ul>
SML Isuzu	EXCELLENT	<ul style="list-style-type: none"> <li>Revenue to grow by 34% YoY, aided by 32% jump in volume.</li> <li>EBITDA margin to expand 516bps YoY to 11% led by operating leverage benefit</li> </ul>	<ul style="list-style-type: none"> <li>Comment on new launches</li> <li>Outlook on volume growth and margins for FY19</li> </ul>

# 1QFY19E: Better Product Mix, Operating Leverage To Offset RM Cost Inflation

COMPANY	1QFY19 OUTLOOK	WHAT'S LIKELY	KEY MONITORABLES
Exide Industries	GOOD	<ul style="list-style-type: none"> <li>Expect revenues to grow 22% YoY, owing to regaining market share in the replacement market, and higher volumes in the OEM segment.</li> <li>EBITDA margin to see sequential expansion of 55bps QoQ to 14.3% , owing to moderation in lead prices.</li> </ul>	<ul style="list-style-type: none"> <li>Outlook for growth and pricing in 2W/4W replacement segments</li> <li>Outlook for growth in invertors' and EV batteries</li> <li>Outlook on the insurance business</li> </ul>
Suprajit Engineering	GOOD	<ul style="list-style-type: none"> <li>Consolidated revenue to grow by 12% YoY aided by strong 2W volumes and recovery in aftermarket volumes</li> <li>EBITDA margin to see 196 bps YoY expansion to 16.2%.</li> </ul>	<ul style="list-style-type: none"> <li>Outlook on margins in SEL and Phoenix</li> <li>Update on aftermarket sales post GST</li> <li>Performance of Wescon and the way forward</li> </ul>
Jamna Auto	EXCELLENT	<ul style="list-style-type: none"> <li>Given the strong growth in MHCV volumes, we expect tonnage sales to jumped 44% YoY, leading to 71% YoY jump in revenue.</li> <li>Better product mix will offset higher commodity prices and we expect EBITDA margin to expand by 265bps YoY to 14%.</li> </ul>	<ul style="list-style-type: none"> <li>Mix of conventional/parabolic springs for the quarter and outlook going ahead</li> <li>Update on aftermarket sales</li> </ul>
Swaraj Engines	GOOD	<ul style="list-style-type: none"> <li>Expect revenue growth of ~15% YoY, driven by 10.0/4.2% YoY volume/realization growth</li> <li>Expect EBITDA growth of 8.8% YoY, the EBITDAM are likely to decline by 84bps YoY to 15.8% (higher raw material costs weighed on margins)</li> <li>APAT is expected to grow by 4.4% YoY</li> </ul>	<ul style="list-style-type: none"> <li>The monsoons for CY18 and Government spending on infra projects, and focus on agriculture to enhance farm productivity</li> <li>Capacity expansion plan</li> </ul>
Ramkrishna Forgings	EXCELLENT	<ul style="list-style-type: none"> <li>Strong growth in Class 8 truck orders and domestic CV volumes to result in 61% YoY growth in topline.</li> <li>EBITDA margin to remain flat YoY to 19.7% , benefit of operating leverage was offset by commodity inflation</li> </ul>	<ul style="list-style-type: none"> <li>Update on export orders of heavy press lines</li> <li>Increase in wallet share of domestic customers</li> </ul>

# 1QFY19E: Better Product Mix, Operating Leverage To Offset RM Cost Inflation

COMPANY	1QFY19 OUTLOOK	WHAT'S LIKELY	KEY MONITORABLES
Subros	GOOD	<ul style="list-style-type: none"> <li>▪ Topline growth of 35% YoY, driven by strong volume growth of Maruti in PV sales and incremental revenue from new business verticals like bus/truck ACs and radiators</li> <li>▪ EBITDA margin to contract 38bps YoY to 10.4% owing to adverse product mix and currency movement</li> </ul>	<ul style="list-style-type: none"> <li>▪ Comments on new businesses like AC for CV and radiators</li> <li>▪ Capex and debt repayment guidance</li> </ul>
NRB Bearings	EXCELLENT	<ul style="list-style-type: none"> <li>▪ We expect top line to grow 20% YoY, owing to strong 2W and CV volume growth</li> <li>▪ Margins to improve by 103bps YoY to 17.5%, led by operating leverage, richer product mix and appreciation of Euro against INR</li> </ul>	<ul style="list-style-type: none"> <li>▪ Export growth and outlook</li> <li>▪ Aftermarket growth and outlook</li> </ul>
Lumax Autotech	EXCELLENT	<ul style="list-style-type: none"> <li>▪ Top line to increase by 39% YoY, owing to strong growth in the lighting, plastic molded part and Gear shifter business</li> <li>▪ EBITDA margin is expected to improve 22bps YoY to 8.8%, owing to richer product mix</li> </ul>	<ul style="list-style-type: none"> <li>▪ Update on acquisition of new business from OEMs</li> <li>▪ Margin and revenue guidance for FY19</li> </ul>
JBM Auto	AVG	<ul style="list-style-type: none"> <li>▪ We expect revenues to grow by 12% YoY, led by strong PV sales of M&amp;M and Tata Motors</li> <li>▪ EBITDA margin to remain flat YoY to 12.5%</li> </ul>	<ul style="list-style-type: none"> <li>▪ Update on amalgamation of its subsidiary JBMAS (currently holds 73.89% stake) and JV JBMMA (50% stake)</li> <li>▪ Revenue growth guidance for FY19</li> </ul>

# 1QFY19E: Financial Summary

COMPANY (AUTO)	NET SALES (Rs bn)			EBITDA (Rs bn)			EBITDA Margin (%)			APAT (Rs bn)			Adj. EPS		
	1Q FY19E	QoQ (%)	YoY (%)	1Q FY19E	QoQ (%)	YoY (%)	1Q FY19E	QoQ (%)	YoY (bps)	1Q FY19E	QoQ (%)	YoY (%)	1Q FY19E	4Q FY18	1Q FY18
Maruti Suzuki	224.9	6.3	28.2	33.7	11.7	44.5	15.0	72.9	168.8	22.3	18.4	43.2	73.8	62.3	51.5
Tata Motors	722.3	-20.9	23.5	83.0	-30.4	43.7	11.5	-156.8	161.9	5.6	-74.4	NA	2.7	11.2	-3.1
Bajaj Auto	67.7	16.4	44.9	13.2	17.1	64.1	19.4	10.4	228.1	10.8	14.6	29.4	42.7	37.3	33.0
Hero MotoCorp	90.3	5.4	13.3	14.2	3.7	9.7	15.7	-26.8	-52.0	10.1	4.3	10.4	50.5	48.4	45.8
Ashok Leyland	64.2	-26.8	51.4	6.4	-38.1	108.8	10.0	-181.5	273.4	3.7	-44.1	235.2	1.3	2.3	0.4
Force Motors	8.2	-21.0	10.8	0.7	-37.7	87.9	8.5	-228.4	348.8	0.4	-41.6	17.9	24.9	45.9	22.8
SML Isuzu	4.3	15.6	33.6	0.5	91.5	153.9	10.9	432.1	516.3	0.3	77.1	287.1	18.1	10.2	4.7
<b>Aggregate</b>	<b>1181.9</b>	<b>-13.5</b>	<b>25.9</b>	<b>151.6</b>	<b>-18.1</b>	<b>43.8</b>	<b>12.9</b>	<b>-72.5</b>	<b>160.1</b>	<b>53.1</b>	<b>-20.2</b>	<b>116.6</b>			
<b>Aggregate (ex-TTMT)</b>	<b>459.6</b>	<b>0.8</b>	<b>29.8</b>	<b>68.6</b>	<b>3.1</b>	<b>43.8</b>	<b>15.0</b>	<b>33.3</b>	<b>146.0</b>	<b>47.5</b>	<b>5.1</b>	<b>37.4</b>			
<b>AUTO ANCILLARIES</b>															
Exide Industries	25.7	4.3	22.0	3.7	8.5	13.1	14.3	55.4	-112.2	2.1	12.6	12.9	2.5	2.2	2.2
Suprajit Engineering	3.6	-11.3	12.0	0.6	-20.4	27.4	16.2	-185.6	196.2	0.3	-41.5	45.7	2.3	4.0	1.6
Jamna Auto	4.6	-22.1	71.2	0.6	-27.8	111.6	13.9	-109.2	265.1	0.3	-33.9	77.6	0.8	1.2	0.4
Swaraj Engines	2.2	20.0	14.6	0.4	23.0	8.8	15.8	38.4	(84.1)	0.2	25.6	4.4	18.5	14.7	17.7
Ramkrishna Forgings	4.2	-5.4	61.2	0.8	-10.4	61.7	19.7	-109.5	6.5	0.3	-3.9	263.3	10.1	10.5	2.8
Subros	5.6	1.4	34.8	0.6	-8.4	30.1	10.4	-112.0	-37.5	0.2	-4.3	55.9	3.0	3.1	1.9
NRB Bearings	2.1	-8.6	20.0	0.4	-10.9	27.5	17.5	-45.0	102.8	0.2	-24.0	60.4	2.1	2.8	1.3
Lumax Auto	3.3	-1.7	38.7	0.3	1.8	42.3	8.8	30.4	22.5	0.1	8.9	57.1	2.1	1.9	1.3
JBM Auto	4.2	-5.8	12.0	0.5	-9.9	12.3	12.5	-57.1	2.9	0.2	-9.6	11.7	3.9	4.3	3.4
<b>Aggregate</b>	<b>55.5</b>	<b>-2.6</b>	<b>28.1</b>	<b>7.9</b>	<b>-4.2</b>	<b>26.8</b>	<b>14.3</b>	<b>-26.3</b>	<b>-15.8</b>	<b>4.0</b>	<b>-6.1</b>	<b>32.5</b>	-	-	-



# 1QFY19E: Peer Set Comparison

	Mcap (Rs bn)	CMP (Rs/sh)	Reco	TP	Adj EPS (Rs/sh)				P/E (x)				EV/EBITDA (x)				RoE (%)			
					FY17	FY18	FY19E	FY20E	FY17	FY18	FY19E	FY20E	FY17	FY18	FY19E	FY20E	FY17	FY18	FY19E	FY20E
<b>AUTOS</b>																				
Maruti Suzuki	2,811	9,304	NEU	9,432	242.9	255.6	322.4	377.3	38.3	36.4	28.9	24.7	27	23.2	19.2	16.4	23.2	19.8	21.6	21.7
Tata Motors*	920	271	NR	416	18.7	20.7	25.3	31	14.5	13.1	10.7	8.7	3.7	7.7	4.7	3.8	9.1	9.1	8.7	9.8
Bajaj Auto	875	3,023	BUY	3,717	132.3	139.5	170.4	198.2	22.8	21.7	17.7	15.3	16.7	14.7	11.7	9.5	25.3	22.5	24.2	24.5
Hero MotoCorp	726	3,636	BUY	4,405	169.1	185.1	206.8	231.8	21.5	19.6	17.6	15.7	14.7	12.7	11.2	9.8	35.7	33.8	33	32.5
Ashok Leyland	376	132	BUY	166	4.3	5.3	7.6	9.1	30.7	24.7	17.4	14.5	16.9	12.4	9.6	7.8	20.7	23.5	28.7	29.6
Force Motors*	33	2,500	NR	3,432	137.3	112.2	145.2	190.7	18.2	22.3	17.2	13.1	12.2	11.8	9.6	7.7	11.4	8.5	10.1	11.9
SML Isuzu	11	766	BUY	1,023	43.4	5.9	35.2	56.8	17.6	130.5	21.8	13.5	10.6	28.2	10.6	7.6	16.9	2.1	12.2	17.8
<b>AUTO ANCS</b>																				
Exide Industries	223	262	BUY	298	8.2	8.4	11.1	13	32.1	31.4	23.7	20.1	19.9	19	17.5	13.5	14.7	14.9	13.9	16.7
Suprajit Engineering	33	254	BUY	296	8.1	9.9	12.9	15.2	31.2	25.7	19.8	16.8	18	15.1	12.8	10.7	23.4	23.5	24	22.7
Jamna Auto	34	86	BUY	107	2.6	3.1	4.3	5.3	32.7	27.3	20	16.1	17.4	14.5	11.4	9.2	34.9	33.1	35.9	35.4
Swaraj Engines	23	1,890	BUY	2,475	56.8	66.1	78.5	91.7	33.3	28.6	24.1	20.6	19.7	17.3	14.0	11.8	25.2	31.3	38.6	38.1
Ramkrishna Forgings*	18	613	NR	913	3.8	29.1	39.8	50.3	160.9	21.1	15.4	12.2	16.6	8.8	7.3	5.9	2.3	15.4	15.9	17.5
Subros	17	281	BUY	384	5.7	9.1	13.4	19.2	49.4	30.9	21	14.6	21.9	18.3	15	12.5	10	14.8	19.1	23.3
NRB Bearings	17	172	BUY	217	5.3	9.4	10.5	12.1	32.3	18.4	16.3	14.3	16.3	10.9	9.4	8.2	17.7	26.6	24.7	23.9
JBM Auto	12	300	BUY	560	14.1	17	24.6	31.1	21.2	17.6	12.2	9.7	10.4	8.4	6.3	5.2	12.3	18	22.7	21.7
Lumax Autotech	9	135	BUY	198	5.1	6.9	9.0	11.0	26.7	19.7	15.0	12.3	13.0	9.2	7.8	6.3	10.6	11.4	12.9	14.4

Source: Company, HDFC Sec Inst Research, \*Fair Value

**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

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