Sharekhan
by BNP PARIBAS

Automobile

Bucking the trend

Sector: Automobile

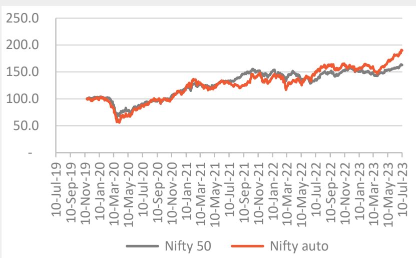
View: Positive

Coverage universe

Company	CMP (Rs)	Reco	PT (Rs)
Alicon Castalloy Limited #	834	BUY	895
Amara Raja Batteries	692	BUY	696
Apollo Tyres	428	BUY	429
Ashok Leyland	163	BUY	181
Bajaj Auto	4,900	BUY	5,600
Balkrishna Industries	2,290	Hold	2,446
Bosch	19,235	BUY	21,929
Eicher Motors	3,173	BUY	3,855
Escorts Kubota	2,285	Positive	2,356
Exide Industries $	250	BUY	UR
Gabriel India	201	BUY	217
GNA Axles	903	BUY	946
Greaves Cotton	134	BUY	183
Hero Motocorp	3,127	BUY	3,298
Lumax Auto Technologies#	367	BUY	406
M&M @ $	1,550	BUY	1,550
CIE Automotive India	526	Positive	609
Maruti Suzuki	9,737	BUY	10,965
Ramkrishna Forgings	440	BUY	UR
Rolex Rings	2,196	Positive	2,382
Schaeffler India	2,986	BUY	3,328
Sundram Fasteners #	1,254	BUY	UR
Suprajit Engineering #	427	BUY	439
Sterling Tools	364	Positive	437
Tata Motors #	618	BUY	720
TVS Motors $	1,310	BUY	UR
VST Tillers and Tractors Limited	2,828	Neutral	2,445

@ MM & MVML; # Consolidated; $ core business valuation; UR Under Review
Source: Company data, Sharekhan estimates

Price chart



Source: NSE India, Sharekhan Research

Summary

- Two-wheeler OEMs are expected to outperform four-wheeler OEMs in Q1FY24.
- Steady input costs and focus on premiumization would keep operating performance strong y-o-y.
- After market focused ancillary players may witness recovery in replacement demand. Shipments (export) could have been impacted due to the cyclonic environment in Q1FY24.
- **Preferred picks:** Tata Motors, Maruti Suzuki, Ashok Leyland, Bajaj Auto, Hero MotoCorp, Apollo Tyres, Bosch, Schaeffler India, Gabriel India, Lumax Auto Technologies, CIE Automotive, Rolex Rings, Sterling Tools.

Our universe of automobile players is expected to clock strong numbers y-o-y due to a low base as total revenues and EBITDA (ex TML) are expected to grow by 26.3% y-o-y and 39.4% y-o-y, respectively while EBITDA margins (ex – TML) would expand by 222 bps to 13.2%. Seasonally, first quarter of a financial year used to be a relatively slow quarter than Q4FY23. In contrast, in Q1FY24, our coverage universe is expected to almost match operating performance seen in Q4FY23 as players have shifted a focus from plain vanilla revenue growth to extension in profitability. Sequentially, our universe (ex-TML) is expected to see a 1.5% and 2.8% rise, respectively in revenue and EBITDA, while EBITDA margin is expected to expand by 16 bps q-o-q to 13.2%. Given OEMs have already started registering improvement in operating performance from Q4FY23, we believe the sequential improvement in operating performance in ancillaries would be higher than that of OEMs. Our OEM universe is expected to register flat expansion in EBITDA margins, while ancillary universe is expected to register 45 bps improvement in EBITDA margins q-o-q. Decent operating performance in a lenient quarter would pay the way to continue to build healthy expectations for a cyclically strong quarter as the year moves away.

Steady input costs and rise in replacement demand: We believe that steady RM cost trend and a shift in focus towards premiumization would help auto players to report healthy operating performance in Q1FY24. Given the high base, auto ancillary players are expected to outperform OEMs in Q1FY24 in terms of sequential improvement in EBITDA margin. Export-oriented players could have faced in delay in shipment due to cyclonic environment in Q1FY24. Further, after-market players would benefit from inventory buildup in the first quarter of the financial year. We expect, Amara Raja Batteries, Exide Industries, Bosch, Lumax Auto Technologies and Schaeffler India to witness healthy uptick in revenue from after market segment. Further the tyre players are expected to witness an improvement in MHCV replacement demand in Q1FY24. The destocking is continued in overseas market and hence the export-oriented players may see a delay in recovery in volumes.

Two-wheeler OEMs to outperform: Among OEMs, we expect two-wheeler players to outperform the 4W players in terms of sequential improvement in operating performance. Our two-wheeler OEM universe is expected to register 11.6% and 14.9% q-o-q increase in revenue and EBITDA, respectively and 47 bps q-o-q improvement in EBITDA margin to 16.4% as we are expecting all the players in two-wheeler universe are expected to register improvement in EBITDA margin on q-o-q basis, given all four players in two-wheeler universe have reported increase in volumes on q-o-q basis. Our 4W universe is expected to register a 3.1% q-o-q decline in revenue and 4.2% q-o-q decline in EBITDA and EBITDA margin is expected to remain flat at 11.6% (mere 13 bps down on q-o-q) as except M&M's tractor division and TML's PV segment, all other players have reported q-o-q decline in volumes. CV players have reported a sequential decline in volumes due to robust prebuying in Q4FY23 and PV players have observed supply chain issues in Q1FY24.

Auto ancillary players to perform well : Our ancillary universe is expected to register 2.0% q-o-q increase in revenue, 4.9% q-o-q increase in EBITDA and 45 bps q-o-q improvement in EBITDA margin to 15.9%. The sequential improvement in operating performance is expected to be driven by healthy operating performance across the sub-segment. Our battery universe and tyre universe are expected to report 92 bps and 28 bps improvement in EBITA margin on sequential basis, while excluding the tyre and battery players, our auto ancillary universe is expected to register 45 bps q-o-q improvement in EBITDA margins.

Outlook

In Q1FY24 performance, the key thing to watch out is operating margin trajectory and management's commentary on recovery in rural markets along with demand trends in overseas markets and margin retention. OEMs are looking for 5-7% growth in PV volumes, a 10-12% growth in CV volumes, low single digit growth in tractor volumes. A further two-wheeler segment is expected to register double-digit revenue growth in FY24. While volume growth in expected to moderate in FY24 due to a high base, we believe that earnings growth would be driven by the improvement in operating performance led by a rise in premiumization, efficient cost control, a better product mix and RM cost tailwind. Going forward the demand momentum would follow the recovery in rural sentiments and response to product launches and the monsoons. Besides that, we believe that the legacy players would be more aggressive on their EV roadmap in FY24 as compared to earlier years on availability of demanding products in hand. Hence, we continue to maintain our positive stance on the automobile sector.

Q1FY2024 Leaders: Balkrishna Industries, Gabriel India, Exide Industries, Amara Raja, Sterling Tools, Alicon Castalloy

Q1FY2024 Laggards: Greaves Cotton, GNA Axles, VST Tillers

Preferred picks: Tata Motors, Maruti Suzuki, Ashok Leyland, Bajaj Auto, Hero Motocorp, Apollo Tyres, Bosch, Schaeffler India, Gabriel India, Lumax Auto Technologies, CIE Automotive, Rolex Rings, Sterling Tools.

Q1FY24 result estimates

Company	Sales (Rs cr)				EBITDA margins (%)				PAT (Rs cr)			
	Q1FY24E	Q1FY23	YoY %	QoQ%	Q1FY24E	Q1FY23	YoY bps	QoQ bps	Q1FY24E	Q1FY23	YoY %	QoQ%
Alicon Castalloy Limited #	341	343	(0.7)	6.7	11.7	10.9	82	80	12	11	9.3	(7.4)
Amara Raja Batteries	2,648	2,620	1.1	9.0	14.8	10.0	485	92	221	131	67.8	18.8
Apollo Tyres #	6,424	5,942	8.1	2.8	15.6	11.6	399	(38)	380	191	99.5	(7.0)
Ashok Leyland	8,169	7,223	13.1	(29.7)	8.5	4.4	408	(245)	340	68	399.6	(54.8)
Bajaj Auto	10,529	8,005	31.5	18.2	19.5	16.2	327	19	1,670	1,173	42.4	16.6
Balkrishna Industries	2,480	2,646	(6.3)	7.0	22.2	17.2	497	186	322	320	0.6	25.9
Bosch	4,104	3,544	15.8	1.0	13.2	12.7	50	32	409	334	22.4	2.7
Eicher Motors	4,088	3,397	20.3	7.5	25.5	24.5	107	99	897	611	46.8	(1.0)
Escorts Kubota	2,281	2,015	13.2	4.5	10.8	10.0	76	(4)	212	147	43.7	4.0
Exide Industries	3,826	3,899	(1.9)	8.0	11.3	9.9	136	91	255	226	12.6	22.7
Gabriel India	782	721	8.4	6.1	8.4	7.1	132	126	44	33	33.2	29.8
GNA Axles	392	375	4.5	2.1	14.5	13.5	107	(90)	30	27	11.0	(11.8)
Greaves Cotton	717	660	8.7	(13.2)	5.0	5.8	(84)	(94)	31	18	73.4	-
Hero Motocorp	8,874	8,393	5.7	6.8	13.3	11.2	210	27	860	625	37.7	0.1
Lumax Auto Technologies #	678	422	60.8	37.5	12.0	10.5	147	52	37	22	68.4	34.0
M&M @ #	23,985	19,613	22.3	6.3	12.8	11.9	86	40	1,889	1,471	28.4	(8.3)
CIE Automotive	2,396	2,216	8.1	(1.8)	16.1	13.8	232	51	227	184	23.4	3.0
Maruti Suzuki	31,567	26,500	19.1	(1.5)	10.0	7.2	278	(46)	2,293	1,013	126.4	(12.6)
Ramkrishna Forgings	861	651	32.4	3.1	23.1	22.1	99	54	83	47	74.9	23.7
Rolex Rings	308	287	7.6	3.0	22.0	22.3	(31)	44	45	50	(9.9)	(3.5)
Schaeffler India	1,789	1,749	2.3	5.6	19.2	18.4	76	57	247	211	17.4	12.8
Sundram Fasteners	1,484	1,410	5.3	2.5	16.1	16.0	12	43	134	138	(3.0)	5.0
Suprajit Engineering #	728	645	12.9	4.2	12.9	8.4	453	43	47	27	71.9	14.5
Sterling Tools	222	174	27.8	5.0	11.6	12.6	(109)	96	12	10	29.0	11.7
Tata Motors #	1,02,161	71,935	42.0	(3.6)	12.1	4.4	764	(2)	3,168	(5,732)	(155.3)	(40.4)
TVS Motors	7,330	6,009	22.0	11.0	10.8	10.0	84	52	440	321	37.4	21.1
VST Tillers & Tractors	242	236	2.4	(25.1)	12.8	7.2	559	(411)	22	10	115.8	(46.0)
AUTO UNIVERSE	**2,29,408**	**1,81,630**	**26.3**	**(0.8)**	**12.7**	**8.4**	**431**	**9**	**14,325**	**1,685**	**750.2**	**(15.2)**
AUTO UNIVERSE - excl Tata Motors	**1,27,246**	**1,09,695**	**16.0**	**1.5**	**13.2**	**11.0**	**222**	**16**	**11,157**	**7,417**	**50.4**	**(3.6)**

Source: Company, Sharekhan Research; Note: @ MM & MVML; # Consolidated; $ Core business valuation; UR: Under Review

Valuation

Company	CMP	Reco	PT (Rs)	EPS			P/E (x)		
				FY23	FY24E	FY25E	FY23	FY24E	FY25E
Alicon Castalloy Limited #	834	BUY	895	31.9	43.5	66.3	26.1	19.2	12.6
Amara Raja Batteries	692	BUY	696	43.5	49.6	55.3	15.9	14.0	12.5
Apollo Tyres	428	BUY	429	17.0	23.7	28.6	25.1	18.1	15.0
Ashok Leyland	163	BUY	181	4.4	6.7	8.5	37.1	24.4	19.2
Bajaj Auto	4,900	BUY	5600	198.0	230.0	265.0	24.7	21.3	18.5
Balkrishna Industries	2,290	Hold	2446	59.2	78.2	92.3	38.7	29.3	24.8
Bosch	19,235	BUY	21929	483.0	644.4	731.1	39.8	29.9	26.3
Eicher Motors	3,173	BUY	3855	106.5	126.8	145.5	29.8	25.0	21.8
Escorts Kubota	2,285	Positive	2356	63.4	78.9	94.0	35.2	29.0	24.3
Exide Industries $	250	BUY	UR	10.6	12.4	14.7	23.5	20.2	17.1
Gabriel India	201	BUY	217	9.2	12.8	15.1	21.8	15.7	13.3
GNA Axles	903	BUY	946	60.7	66.2	73.0	14.9	13.6	12.4
Greaves Cotton	134	BUY	183	3.9	6.3	7.8	34.3	21.2	17.2
Hero Motocorp	3,127	BUY	3298	146.0	169.0	194.0	21.4	18.5	16.1
Lumax Auto Technologies#	367	BUY	406	14.6	18.6	22.6	25.1	19.7	16.2
M&M @ $	1,550	BUY	1550	61.5	68.0	81.0	21.6	22.8	19.1
CIE Automotive India	526	Positive	609	17.9	21.5	25.4	26.6	24.5	20.7
Maruti Suzuki	9,737	BUY	10965	266.5	345.0	391.9	36.5	28.2	24.8
Ramkrishna Forgings	440	BUY	UR	14.7	21.8	27.4	29.9	20.2	16.1
Rolex Rings	2,196	Positive	2382	72.7	79.5	95.3	30.2	27.6	23.0
Schaeffler India	2,986	BUY	3328	56.3	62.5	75.7	53.1	47.8	39.4
Sundram Fasteners #	1,254	BUY	UR	23.8	31.1	41.5	52.7	40.4	30.2
Suprajit Engineering #	427	BUY	439	11.0	14.2	20.0	38.8	30.1	21.4
Sterling Tools	364	Positive	437	12.3	18.7	13.8	29.6	19.5	26.4
Tata Motors #	618	BUY	720	1.9	23.6	31.7	322.6	26.2	19.5
TVS Motors $	1,310	BUY	UR	30.0	37.0	47.0	42.0	35.4	27.9
VST Tillers and Tractors Limited	2,828	Neutral	2445	124.2	152.8	175.2	22.4	18.5	16.1

Source: Company data, Sharekhan estimates; @ MM & MVML; # Consolidated; $ core business valuation; UR Under Review

Q1FY2024 Automobile earnings review

Company-wise key performance

Company	Q1FY24E	YoY (%)	QoQ (%)	Comments
Alicon Castalloy				
Revenue (Rs crore)	340.8	(0.7)	6.7	Topline to expand by 6.7% q-o-q on the back of 2% q-o-q increase in international revenue and 7% q-o-q increase in domestic revenue. Sequential increase in two wheelers production to drive its topline performance. EBITDA margin is expected to expand by 80 bps q-o-q on account of operating leverage.
EBITDA margin (%)	11.7	82	80	
APAT (Rs crore)	11.8	9.3	(7.4)	
Amara Raja Batteries				
Revenue (Rs crore)	2,647.8	1.1	9.0	Revenue to improve by 9% q-o-q in expectation of increase in OEM production and a rise in replacement demand. Steady RM cost trend to support gross margin expansion and hence EBITDA margin is expected to expand by 90 bps q-o-q.
EBITDA margin (%)	14.8	485	92	
APAT (Rs crore)	220.5	67.8	18.8	
Apollo Tyres				
Revenue (Rs crore)	6,423.6	8.1	2.8	Revenue is expected to increase by 2.8% q-o-q on expectation of 4% q-o-q increase in revenues from domestic market and flat q-o-q growth in revenues from Europe. With steady RM cost and assuming increase in traction in TBR replacement segment and slow movement in PCR replacement segment, we expect EBITDA to remain flat on q-o-q and EBITDA Margin to contract by 40 bps q-o-q.
EBITDA margin (%)	15.6	399	-38	
APAT (Rs crore)	380.3	99.5	(7.0)	
Ashok Leyland				
Revenue (Rs crore)	8,169.3	13.1	(29.7)	Revenue to increase 13.1% y-o-y on the back of a 4.2% y-o-y increase in volumes and an 8.5% y-o-y increase in ASPs. EBITDA Margin to expand by 410 bps q-o-q on account of soft RM cost benefit and price hikes.
EBITDA margin (%)	8.5	408	-245	
APAT (Rs crore)	340.0	399.6	(54.8)	
Bajaj Auto				
Revenue (Rs crore)	10,528.9	31.5	18.2	Revenue to increase by 18.2% q-o-q on the back of 19.8% q-o-q increase in volumes. EBITDA margin is expected to expand by 20 bps q-o-q led by healthy growth in topline.
EBITDA margin (%)	19.5	327	19	
APAT (Rs crore)	1,670.5	42.4	16.6	
Balkrishna Industries				
Revenue (Rs crore)	2,480.0	(6.3)	7.0	Revenue is expected to increase by7% q-o-q on expectation of 3.2% q-o-q increase in volumes and 3.7% q-o-q increase in ASPs. With relatively soft RM costs EBITDA margin to expand by 190bps q-o-q to 22.2%
EBITDA margin (%)	22.2	497	186	
APAT (Rs crore)	321.8	0.6	25.9	
Bosch				
Revenue (Rs crore)	4,104.0	15.8	1.0	Given the moderation in CV production, revenue is expected to grow by 1.0% q-o-q in expectation of healthy traction in after market segment. EBITDA Margin is expected to expand by 30 bps q-o-q led by soft RM cost benefit.
EBITDA margin (%)	13.2	50	32	
APAT (Rs crore)	408.9	22.4	2.7	

Company	Q1FY24E	YoY (%)	QoQ (%)	Comments
Eicher Motors				
Revenue (Rs crore)	4,087.8	20.3	7.5	Revenue to increase by 7.5% on the back of a 4.2% q-o-q increase in volumes. EBITDA margin is expected to expand by 100 bps q-o-q due to operating leverage. APAT is expected to decline by 1.0% q-o-q due to lower income from VECV.
EBITDA margin (%)	25.5	107	99	
APAT (Rs crore)	896.7	46.8	(1.0)	
Escorts Kubota				
Revenue (Rs crore)	2,281.2	13.2	4.5	Revenue is expected to increase by 4.5% q-o-o on the back of 7.3% q-o-q increase in tractor volumes. EBITDA margin is expected to remain flat due to lack of operating leverage
EBITDA margin (%)	10.8	76	-4	
APAT (Rs crore)	211.9	43.7	4.0	
Exide Industries				
Revenue (Rs crore)	3,826.4	(1.9)	8.0	Revenue is expected to increase by 8.0% q-o-q led by an increase in OEM production and improvement in replacement demand. With steady RM costs and operating leverage, EBITDA margin is expected to expand by 90 bps q-o-q.
EBITDA margin (%)	11.3	136	91	
APAT (Rs crore)	254.9	12.6	22.7	
Gabriel India				
Revenue (Rs crore)	781.6	8.4	6.1	Revenue is expected to increase by 6.1% q-o-q on expectation of 6%, 8% and 2% q-o-q respectively increase in revenue from OEMs, after market and Exports respectively. With soft RM cost trend and operating leverage, the EBITDA margin is expected to expand by 130 bps q-o-q.
EBITDA margin (%)	8.4	132	126	
APAT (Rs crore)	43.8	33.2	29.8	
GNA Axles				
Revenue (Rs crore)	392.0	4.5	2.1	With moderation in CV and tractors production growth, we expect revenues to grow by 2.1% q-o-q and EBITDA margin to contract by 90 bps q-o-q.
EBITDA margin (%)	14.5	107	-90	
APAT (Rs crore)	30.0	11.0	(11.8)	
Greaves Cotton				
Revenue (Rs crore)	717.5	8.7	(13.2)	Revenues are expected to decline by 13.2% q-o-q on expectation of 1% q-o-q increase in revenue from engine division and 30% q-o-q decline in e mobility business. EBITDA margin is expected to contract by 90 bps q-o-q due to lack of operating leverage.
EBITDA margin (%)	5.0	-84	-94	
APAT (Rs crore)	30.9	73.4	-	
Hero Motocorp				
Revenue (Rs crore)	8,873.6	5.7	6.8	Revenue to increase by 6.8% q-o-q on account of 6.5% q-o-q increase in volumes. EBITDA margin is expected to expand by 30 bps q-o-q due to operating leverage.
EBITDA margin (%)	13.3	210	27	
APAT (Rs crore)	859.7	37.7	0.1	
Lumax Auto Technologies				
Revenue (Rs crore)	678.5	60.8	37.5	Like Like-to-like numbers would not be comparable as Q1FY24 would include the full impact of IACI's acquisition. We expect business to contribute 23% to the topline. With expectation of improvement in product mix we expect EBITDA margin to reach to 12% compared to normal range of 10 %-11% in recent past.
EBITDA margin (%)	12.0	147	52	
APAT (Rs crore)	36.8	68.4	34.0	

Company	Q1FY24E	YoY (%)	QoQ (%)	Comments
M&M				
Revenue (Rs crore)	23,984.7	22.3	6.3	Revenue is expected to increase by 6.3% q-o-q as tractor segment registered 28.2% q-o-q increase in volumes and automotive segment registered a mere 1.6% q-o-q decline. EBITDA margin is expected to expand by 40 bps q-o-q due to operating leverage.
EBITDA margin (%)	12.8	86	40	
APAT (Rs crore)	1,889.5	28.4	(8.3)	
CIE Automotive				
Revenue (Rs crore)	2,396.2	8.1	(1.8)	Given the sequential recovery in two wheeler production and healthy show by TML PVs and M&M PVs, we expect domestic revenue to grow by 7% q-o-q . European revenue is expected to decline by 2% q-o-q due to high base as volume growth was strong in Q1CY23. However, we expect it to sustain its EBITDA Margin at higher levels on moderation in energy cost. Total revenue is expected to decline by 1.8% q-o-q and EBITDA margin is expected to expand by 50 bps q-o-q.
EBITDA margin (%)	16.1	232	51	
APAT (Rs crore)	226.6	23.4	3.0	
Maruti Suzuki				
Revenue (Rs crore)	31,567.4	19.1	(1.5)	Revenue is expected to increase by 1.5% q-o-q due to 3.3% q-o-q decline in volumes. EBITDA margin is expected to contract by 50 bps q-o-q due to lack of operating leverage.
EBITDA margin (%)	10.0	278	-46	
APAT (Rs crore)	2,292.8	126.4	(12.6)	
Ramkrishna Forgings				
Revenue (Rs crore)	861.5	32.4	3.1	Revenue to grow by 3.1% q-o-q on the back of 5% q-o-q growth in domestic revenue and 2% q-o-q growth in export revenue. EBITDA margin is expected to expand by 50 bps q-o-q. With lower tax provisioning, APAT would increase by 23.7% q-o-q.
EBITDA margin (%)	23.1	99	54	
APAT (Rs crore)	82.7	74.9	23.7	
Rolex Rings				
Revenue (Rs crore)	308.5	7.6	3.0	Revenue to increase by 3.0% q-o-q as the shipment is expected to be impacted due to cyclonic environment. EBITDA margin is expected to improve by 40 bps q-o-q as the company has been focussing on sustaining margins higher levels.
EBITDA margin (%)	22.0	-31	44	
APAT (Rs crore)	44.8	(9.9)	(3.5)	
Schaeffler India				
Revenue (Rs crore)	1,788.6	2.3	5.6	Revenue is expected to increase by 5.6% q-o-q on expectation of mid-single digit growth in each of its segment. Healthy traction in replacement market and export revenue would translate into 60 bps q-o-q EBITDA margin.
EBITDA margin (%)	19.2	76	57	
APAT (Rs crore)	247.5	17.4	12.8	
Sundram Fasteners				
Revenue (Rs crore)	1,484.3	5.3	2.5	Revenue is expected to increase by 2.5% q-o-q on expectation of 5% q-o-q increase in domestic revenue and 2% q-o-q increase in export revenue. EBITDA margin is expected to expand by 40 bps q-o-q due to operating leverage.
EBITDA margin (%)	16.1	12	43	
APAT (Rs crore)	133.9	(3.0)	5.0	

Company	Q1FY24E	YoY (%)	QoQ (%)	Comments
Suprajit Engineering				
Revenue	728.1	12.9	4.2	Revenue is expected to increase by 4.2% q-o-q on expectation of 5% growth in all the segments except SENA division. SENA division is expected to register flat growth on q-o-q. EBITDA margin is expected to expand by 40 bps q-o-q due to operating leverage.
EBITDA margin (%)	12.9	453	43	
APAT (Rs crore)	47.0	71.9	14.5	
Sterling Tools				
Revenue	222.3	27.8	5.0	Revenue is expected to increase by 5% q-o-q on sequential improvement in vehicle production and EBITDA margin is expected to expand by 100 bps q-o-q on soft RM cost and operating leverage.
EBITDA margin (%)	11.6	-109	96	
APAT (Rs crore)	12.4	29.0	11.7	
Tata Motors				
Revenue (Rs crore)	1,02,161.4	42.0	(3.6)	Despite Q4 used to be a seasonally strong quarter compared to Q1, Revenue is expected to decline by mere 3.6% q-o-q and EBITDA margin is expected to be flat on q-o-q- due to healthy performance in JLR segment.
EBITDA margin (%)	12.1	764	-2	
APAT (Rs crore)	3,168.0	(155.3)	(40.4)	
TVS Motors				
Revenue (Rs crore)	7,330.0	22.0	11.0	Revenue is expected to increase by 11.0% q-o-q on account of 9.8% q-o-q increase in volumes. EBITDA margin is expected to expand by 50 bps q-o-q due to operating leverage benefit.
EBITDA margin (%)	10.8	84	52	
APAT (Rs crore)	440.4	37.4	21.1	
VST Tillers & Tractors				
Revenue (Rs crore)	241.6	2.4	(25.1)	Revenue is expected to decline by 25.1% q-o-q due to 32% q-o-q decline in volumes. EBITDA margin is expected to contract by 410 bps q-o-q due to lack of operating leverage.
EBITDA margin (%)	12.8	559	-411	
APAT (Rs crore)	21.7	115.8	(46.0)	

Source: Company, Sharekhan Research
Note: @ MM & MVML; # Consolidated; $ Core business valuation; UR: Under Review

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Tata Motors Ltd

JLR on the comeback trail

Automobiles	Sharekhan code: TATAMOTORS
Reco/View: Buy ↔	CMP: Rs. 618
	Price Target: Rs. 720 ↑

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

ESG Disclosure Score NEW

ESG RISK RATING 27.50

Updated Jun4 08, 2023

Medium Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

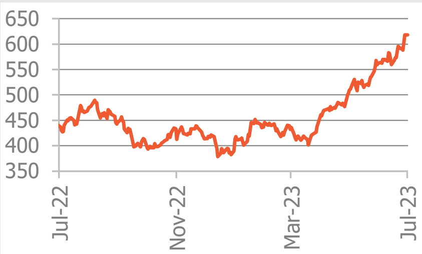
Company details

Market cap:	Rs. 205,217 cr
52-week high/low:	Rs. 634 / 375
NSE volume: (No of shares)	127.6 lakh
BSE code:	500570
NSE code:	TATAMOTORS
Free float: (No of shares)	285.7 cr

Shareholding (%)

Promoters	46.4
FII	16.9
DII	17.8
Others	18.9

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	8.8	44.9	57.9	49.7
Relative to Sensex	5.3	35.4	50.6	26.2

Sharekhan Research, Bloomberg

Summary

- In Q1FY24, JLR reported a robust 29.9% y-o-y rise in volumes and is likely to report a positive FCF of over GBP 400 mn.
- JLR continues to enjoy strong demand reflected in the order book of 185,000 units.
- The demand for JLR's most profitable models has been strong as 76% of its order book is constituted by Range Rover, Range Rover Sport and Defender
- We maintain a Buy with revised PT of Rs 720 in expectation of continued improvement in JLR, PV and CV business along with reduction in net automotive debt from current levels.

As semiconductor chip supply improves, JLR sees an improvement in production as was reflected in 29.4% y-o-y growth (-1.5% q-o-q) in JLR wholesales in Q1FY24. This was in line with management's earlier indication as JLR was looking for a flat volume on q-o-q basis in Q1FY24. Generally, Q4 used to be a better quarte in comparison to Q1. Considering this we believe TML is expected to report a decent show in Q1FY24. On sequential basis, we expect TML to register flat EBITDA margin at 12.1% on consolidated basis lead by 100 bps contraction in JLR's EBITDA margin, 160 bps q-o-q contraction in CV's EBITDA margin and 30 bps contraction in PV's EBITDA margin due to seasonality. JLR continues to witness strong demand as the current order book stands at 185,000 units. With increase in production and order execution JLR is looking for a positive FCF of GBP 400 million in Q1FY24 against GBP 521 mn in FY23. The net automotive debt has already come down from Rs 60,700 in Q1FY23 to Rs 43,700 crore in Q4FY23. We believe that recovery in JLR volumes along with improvement in domestic performance would hold TML in reducing its net automotive debt sharply in coming quarters. We maintain our BUY rating on the stock with an upward revised PT of Rs. 720.

- **JLR volumes:** JLR reported a 29.9% y-o-y increase and 1.5% q-o-q decline in wholesales volumes to 93,253 units in Q1FY24 – in line with the management's indications. The management was looking for flat q-o-q volume growth in Q1FY24. The mix has improved sharply y-o-y as Land Rover contributed 88.9% to total JLR volumes compared to 84.8% in Q1FY23 (89.7% in Q4FY23). A flat growth in volumes on q-o-q basis indicates a gradual ease out of semiconductor chip issue. Sequentially the volume contribution from the UK, China and Europe has come down marginally, while volume contribution from US and rest of the world has increased. In Q1FY23- geography mix stood as (vs mix in Q4FY23) - (1) US: 24% (vs 20%) , (2) UK : 18% (vs 21%), (3) China : 12% (vs 13%), (4) Europe: 22% (vs 23%) (5) rest of world : 24% (vs 22%). During the quarter the retail sales (including China JV) has also increased by 29.4% y-o-y and flat (-0.9%) q-o-q to 101,994 units. Geography wise q-o-q growth in retail sales: US: -11.3%, China: +2.9%, UK: -17.9%, Europe: +1.6%, rest of world : 27.7%.
- **Healthy order book:** JLR continues to enjoy healthy order book as the demand for its most profitable models has been continuously strong. The order book stands at 185,000 units at the end of Q1FY24 as compared to 200,000 lakh units in Q4FY23. The reduction in the order book on q-o-q is due to an increase in production, given the management has been continuously looking for a reduction in the waiting period in the market. Further the order book for the most profitable models constitutes a significant portion of the overall order book as Range Rover, Range Rover Sport and Defender constitutes 76% of the total order book. Along with that JLR is looking for a positive FCF of GBP 400 million in Q1FY24 as compared to FCF of GBP 521 mn in FY23.
- **Margin to expand on y-o-y in CV/ PV business:** In domestic business, TML has registered 15.0% y-o-y and 26.1% q-o-q decline in volumes due to high base. The q-o-q decline in CV volumes was expected as the segment witnessed a robust volume in Q4FY23 due to pre buying ahead of implementation of BSVI phase 2 norms from April 2023. Earlier the management guided for a muted growth in CV industry in Q1FY24 and uptick in CV volumes from Q2FY24 onwards. The CV industry is expected to register high single digit to low double-digit growth in FY24 due to high base. We expect TML's CV division to register 300 bps y-o-y expansion and 160 bps q-o-q contraction in EBITDA margin in Q1FY24. Further, PV business continue to maintain traction and has registered 7.9% y-o-y and 3.5% y-o-y increase in volumes. We expect domestic PV business to register 90 bps y-o-y expansion and 30 bps q-o-q contraction in EBITDA margin to 7.0% in Q1FY24.

Our Call

Valuation – Maintain Buy with a revised PT of Rs. 720: TML is expected to report decent numbers in Q1FY24 on account of improvement in JLR's production. Further the JLR has guided for a positive FCF of GBP 400 mn in Q1FY24, which in our view would help TML in reducing its net automotive debt. TML is witnessing improvement in all business verticals – JLR, CVs, and PVs. The company is seeing robust demand and is expected to deliver better operational efficiencies, aided by aggressive launches, market positioning, product differentiation, cost savings, and investments in research and development (R&D). The management is looking for double digit EBITDA margin in both CV and PV business. It is also looking for a positive EBITDA in the electric PV business in near to medium term. Further Tata group company is planning to set up Li ion cell plant. An EV battery cell plant within the group would help the company in achieving speedy product validation and reduce the dependence on third party supplier. We maintain a Buy rating on the stock with SOTP-based revised PT of Rs. 720. The stock is trading at EV/EBITDA multiple of 5.4x its FY25E estimates.

Key Risks

TML's business depends upon cyclical industries such as CVs and PVs. Moreover, the company operates across the globe. Any slowdown or a cyclical downturn in any of the locations where the company has a strong presence can affect business and profitability. The company's operations can be further affected if ongoing global chips shortage worsens.

Valuation (Consolidated) Rs cr

Particulars	FY21	FY22	FY23P	FY24E	FY25E
Net Sales	2,49,795	2,78,454	3,45,967	4,19,192	4,84,260
Growth (%)	-4.3	11.5	24.2	21.2	15.5
AEBIDTA	30,555	24,813	31,830	49,408	59,154
OPM (%)	12.2	8.9	9.2	11.8	12.2
APAT	(1,366)	(10,719)	734	9,045	12,126
Growth (%)	-81.4	684.6	-106.8	1133.0	34.1
FD EPS (Rs)	(4)	(28)	2	24	32
PE (x)			322.6	26.2	19.5
P/BV (x)	4.3	5.3	5.2	4.3	3.6
EV/EBIDTA (x)	9.2	12.6	9.7	6.3	5.4
RoE (%)	-2.5	-24.1	1.6	16.6	18.3
RoCE (%)	6.9	2.6	5.0	9.3	10.4

Source: Company; Sharekhan estimates

Outlook and Valuation

■ Sector View – Demand outlook remains strong

With easing of semiconductor chip supply issues, production has been recovering. We believe that the global vehicle production would see less headwinds in FY24 as compared to FY23 on improved supply chain situation. While pent demand has been playing out in domestic PV market the same would continue to play out in global luxury market for some time. Domestic PV and CV segments are continue to witness uptick in near term as CV cycle is assumed to be in cyclical uptick phase and PV segment is observing a structural uptick.

■ Company Outlook – On a strong growth path

We expect TML to benefit from all its business verticals – JLR, CVs, and PVs. H2FY24 is expected to be strong as compared to H1FY24, aided by volume growth and better operational efficiencies aided by aggressive product launches, market positioning, product differentiation, cost savings, and investments in R&D. Outlook of the domestic CV business is positive, with notable demand arising from infrastructure, mining, and e-commerce activities. TML's PV business has transformed significantly because of strong sales momentum with the 'New Forever' portfolio and gaining EV traction.

■ Valuation – Maintain Buy with a revised PT of Rs. 720

TML is expected to report decent numbers in Q1FY24 on account of improvement in JLR's production. Further the JLR has guided for a positive FCF of GBP 400 mn in Q1FY24, which in our view would help TML in reducing its net automotive debt. TML is witnessing improvement in all business verticals – JLR, CVs, and PVs. The company is seeing robust demand and is expected to deliver better operational efficiencies, aided by aggressive launches, market positioning, product differentiation, cost savings, and investments in research and development (R&D). The management is looking for double digit EBITDA margin in both CV and PV business. It is also looking for a positive EBITDA in the electric PV business in near to medium term. Further Tata group company is planning to set up Li ion cell plant. An EV battery cell plant within the group would help the company in achieving speedy product validation and reduce the dependence on third party supplier. We maintain a Buy rating on the stock with SOTP-based revised PT of Rs. 720.

About the company

TML manufactures cars and commercial automotive vehicles. The company designs, manufactures, and sells heavy, medium, and small CVs, including trucks, tankers, vans, buses, ambulances, and minibuses. TML also manufactures small cars and sports utility vehicles (SUVs). The company is a leading CV manufacturer in India. TML acquired Jaguar and Land Rover brands in 2008; and Jaguar and Land Rover brands merged to form one unified company in 2013.

Investment theme

We are positive on TML, considering its resilient operational performance lately, robust FCF for JLR, and standalone businesses led by the company's all-round strong performance, falling debt, and better earnings visibility. We expect the company's operational performance to continue in the medium term, with recovery in all verticals of automotive businesses. Outlook for JLR business is positive, aided by macro-environment improving in Europe, UK, America, and China. Outlook of the domestic CV business is at the cusp of a sharp cyclical rebound, with notable demand arising from infrastructure, mining, and e-commerce activities. TML's PV business has transformed significantly because of strong sales momentum with the 'New Forever' portfolio. TML's management is committed towards reaching zero debt for its automotive business division. Robust result turnaround in key businesses is a strong reason to believe that the company is on the right track towards achieving zero debt level. We expect all-round improvement in the company's business and, hence, recommend Buy on the stock.

Key Risks

- TML's business is dependent upon cyclical industries – CV and PV. Moreover, the company's business is present across the globe. Any slowdown or cyclical downturn in any of the locations, where it has a strong presence, can impact its business and profitability.

Additional Data

Key management personnel

Chandrasekaran Natarajan	Chairman
Girish Wagh	Executive Director
P B Balaji	Group Chief Financial Officer
Shailesh Chandra	MD, Passenger Vehicle and Electric Mobility

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	TATA Sons Pvt Ltd	43.7
2	Life Insurance Corp of India	5.2
3	SBI Funds Management Ltd	2.2
4	TATA Industries Ltd	2.2
5	Vanguard Group Inc/The	1.7
6	Jhunjhunwala Rekha Rakesh	1.6
7	BlackRock Inc	1.6
8	Jhunjhunwala Rakesh	1.1
9	HDFC Asset Management Co Ltd	1.1
10	Republic of Singapore	1.0

Source: Bloomberg

Sharekhan

by BNP PARIBAS

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