

5 January 2016

India Automobiles

Q3 Preview: Strong earnings momentum

We expect 14%/52% YoY revenue/EBITDA growth for our auto universe in Q3FY16 with volume-led EBITDA margin expansion of 310bps. Margins are likely to improve QoQ for most 4W players, but 2Ws are expected to report a 20-85bps QoQ decline with gains seen only for TVSL. Earnings momentum would be led by AL, EIM and MSIL; JLR and MM too should rebound QoQ. MSIL, EIM and AL remain our top picks given their strong volume growth.

➔ **CV and PV volume momentum continues:** MHCV volume growth moderated while LCV sales finally turned positive during the quarter. Among 4Ws, MSIL and MM (auto division) both reported strong volume growth of ~15% YoY helped by new launches such as *Baleno* and *TUV300*. MM's tractor sales turned positive (+5% YoY) after four consecutive quarters of decline. JLR volumes are likely to grow by 16% YoY on the back of explosive growth from Europe and the US while China sales continue to be muted.

Scooter sales helped HMCL/TVSL post volume growth of 2.5%/7% YoY. BJAUT's 2W volumes declined 3.4% YoY due to a 16% fall in exports while domestic sales grew 9.5% on the back of new launches. EIM (SA) unit sales increased 53% YoY aided by capacity expansion.

➔ **Margins decline for 2Ws (ex-TVSL):** We expect 2W margins (ex-TVSL) to decline QoQ due to increased marketing and new launch expenses during the festive season. EBITDA margins for BJAUT/EIM (SA)/HMCL are forecast to dip 50bps/23bps/85bp due to higher other expenses to sales of 50bps/50bps/110bps. TVSL should report 75bps QoQ margin gains led by lower RM costs and the absence of new launches.

➔ **Margin expansion for 4Ws (ex-AL):** We expect AL's operating margins to decline 200bps QoQ due to a 17% volume drop and a higher share of LCVs in the mix, while TTMT (SA) is expected to post 20bps margin gains. TTMT (SA) is looking at a net loss of Rs 3.2bn even as its JLR business should do well, with estimated margin gains of 240bps QoQ from strong volumes. YoY, margins could drop 400bps due to 10% lower realisations.

MSIL is likely to post a 30bps margin decline QoQ and strong 280bps expansion YoY on forex gains and operating leverage. MM+MVML should see 120bps margin expansion QoQ due to a higher contribution from tractor sales.

➔ **View:** Overall, Q3FY16 is likely to be a good quarter for the RCML auto universe, with AL (+417% YoY), EIM (consolidated; 73%+ YoY) and MSIL (+55% YoY) set to report the strongest earnings growth. HMCL, MM and TVSL should see good growth in the range of 30% to 50% YoY, while BJAUT would be flat. JLR could see a margin decline YoY, though we expect a strong rebound QoQ on solid volumes. We remain positive on MSIL, EIM and AL as their volume growth remains strong.



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COMPANY	TICKER	CMP (Rs)	TP (Rs)	REC
Ashok Leyland	AL IN	93	100	BUY
Bajaj Auto	BJAUT IN	2,491	2,800	BUY
Eicher Motors	EIM IN	17,170	22,100	BUY
Hero MotoCorp	HMCL IN	2,616	3,000	BUY
Mahindra & Mahindra	MM IN	1,248	1,330	HOLD
Maruti Suzuki	MSIL IN	4,561	5,000	BUY
Tata Motors	TTMT IN	375	470	BUY
TVS Motor	TVSL IN	287	240	HOLD

Source: RCML Research



Q3FY16 performance preview

Fig 1 - Auto universe: Q3FY16E performance YoY

Company	Sales (Rs mn)			EBITDA margin (%)		PAT (Rs mn)		
	Q3FY16	Q3FY15	YoY (%)	Q3FY16	Q3FY15	Q3FY16	Q3FY15	YoY (%)
Ashok Leyland	40,578	33,610	20.7	10.0	7.1	1,658	321	416.5
Bajaj Auto	54,504	56,572	(3.7)	21.1	20.5	8,101	8,156	(0.7)
Eicher Motors (Standalone)	12,685	8,282	53.2	27.5	23.6	2,209	1,241	78.1
Eicher Motors (Consolidated)	32,434	22,938	41.4	15.8	13.2	2,655	1,538	72.7
Hero Motocorp	72,644	68,393	6.2	15.0	12.0	7,630	5,829	30.9
TVS Motors	30,160	26,529	13.7	8.1	6.0	1,374	902	52.3
Maruti Suzuki	1,50,858	1,25,758	20.0	16.0	13.2	13,218	8,547	54.7
Mahindra & Mahindra	1,11,610	95,828	16.5	12.1	10.4	8,688	7,027	23.6
Mahindra & Mahindra (+MVML)	1,06,400	92,603	14.9	14.4	11.7	9,493	7,273	30.5
Tata Motors (Standalone)	1,02,450	90,561	13.1	6.7	(1.8)	(3,219)	(13,939)	(76.9)
Tata Motors (Consolidated)	7,38,864	6,99,733	5.6	13.3	14.8	32,254	39,438	(18.2)
JLR (£ mn)	6,135	5,879	4.4	14.6	18.6	396	593	(33.2)
Aggregates*	5,95,239	5,20,187	14.4	13.2	10.1	40,105	18,379	118.2

Source: Company, RCML Research | *Aggregates includes EIM (Consol), M&M (only) and TTMT standalone

Fig 2 - Auto universe: Q3FY16E performance QoQ

Company	Sales (Rs mn)			EBITDA margin (%)		PAT (Rs mn)		
	Q3FY16	Q2FY16	QoQ (%)	Q3FY16	Q2FY16	Q3FY16	Q2FY16	QoQ (%)
Ashok Leyland	40,578	49,397	(17.9)	10.0	12.0	1,658	2,904	(42.9)
Bajaj Auto	54,504	60,978	(10.6)	21.1	21.6	8,101	9,276	(12.7)
Eicher Motors (Standalone)	12,685	13,012	(2.5)	27.5	27.7	2,209	2,285	(3.3)
Eicher Motors (Consolidated)	32,434	31,225	3.9	15.8	15.8	2,655	2,555	3.9
Hero Motocorp	72,644	68,371	6.3	15.0	15.8	7,630	7,721	(1.2)
TVS Motors	30,160	28,807	4.7	8.1	7.4	1,374	1,164	18.0
Maruti Suzuki	1,50,858	1,39,337	8.3	16.0	16.3	13,218	12,256	7.9
Mahindra & Mahindra	1,11,610	92,456	20.7	12.1	11.1	8,688	9,236	(5.9)
Mahindra & Mahindra (+MVML)	1,06,400	87,937	21.0	14.4	13.2	9,493	9,781	(2.9)
Tata Motors (Standalone)	1,02,450	1,05,011	(2.4)	6.7	6.8	(3,219)	(2,875)	12.0
Tata Motors (Consolidated)	7,38,864	6,13,182	20.5	13.3	11.2	32,254	22,232	45.1
JLR (£ mn)	6,135	4,831	27.0	14.6	12.2	396	153	159.0
Aggregates	5,95,239	5,75,582	3.4	13.2	13.1	40,105	42,236	(5.0)

Source: Company, RCML Research | *Aggregates includes EIM (Consol), M&M (only) and TTMT standalone

Company-wise performance expectations

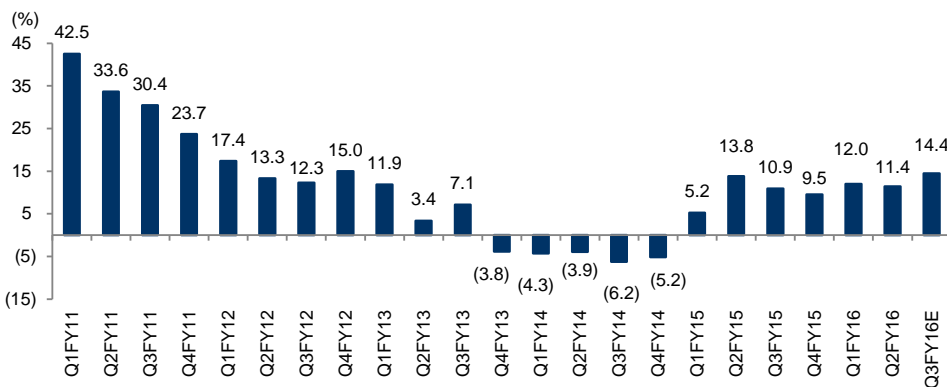
Company	Q3FY16E Highlights
Ashok Leyland	Volumes: +22% YoY/-17% QoQ. Expect EBITDA margin to improve 290bps YoY (-200bps QoQ) with a higher contribution from MHCV sales and strong volume growth, leading to better operating leverage.
Bajaj Auto	Volumes: -3% YoY/-10% QoQ. Expect a 50bps decline in margins QoQ to 21.1% (+60bps YoY) as currency tailwinds are offset by lower operating leverage.
Eicher Motors	Volumes: RE: +53% YoY/-2% QoQ; VECV: 34% YoY/9%QoQ. Expect standalone margins of 27.5% (-20bps QoQ/+390bps YoY) and consolidated margins of 15.8% (flat QoQ/+260bps YoY) driven by healthy volume growth and operating leverage in RE and VECV segments.
Hero MotoCorp	Volumes: +2.5% YoY/+7% QoQ. Expect lower margins QoQ as RM cost benefits would be offset by higher advertisement and sales promotion expenses.



Company	Q3FY16E Highlights
TVS Motors	Volumes: +7% YoY/+3% QoQ. Expect margins to be higher by 70bps QoQ.
Maruti Suzuki	Volumes: +16% YoY/+6% QoQ. Margins to decline by 30bps QoQ as new launch expenses offset the impact of lower RM costs.
Mahindra & Mahindra	Volumes: +15% YoY for AS/+5% YoY for FES. Expect a 120bps QoQ increase in overall margins due to higher contribution of tractor sales.
Tata Motors	Expect standalone PAT loss of ~Rs 3.2bn. For JLR, margins to improve 240bps QoQ due to higher volumes QoQ.

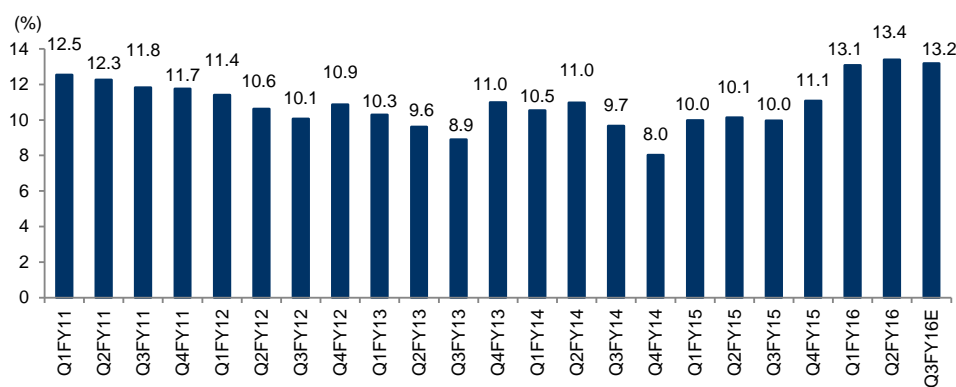
Sector aggregate trends

Fig 3 - RCML Auto Universe: Revenue growth trend (YoY)



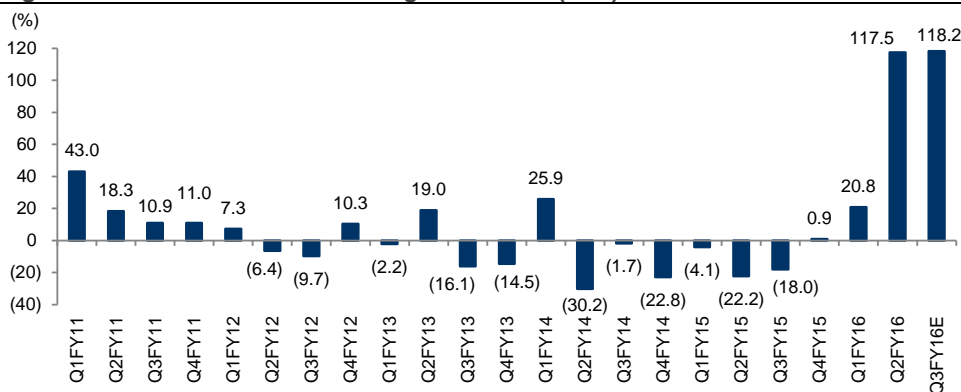
Source: Company, RCML Research

Fig 4 - RCML Auto Universe: Quarterly EBITDA margin trend



Source: Company, RCML Research

Fig 5 - RCML Auto Universe: Profit growth trend (YoY)

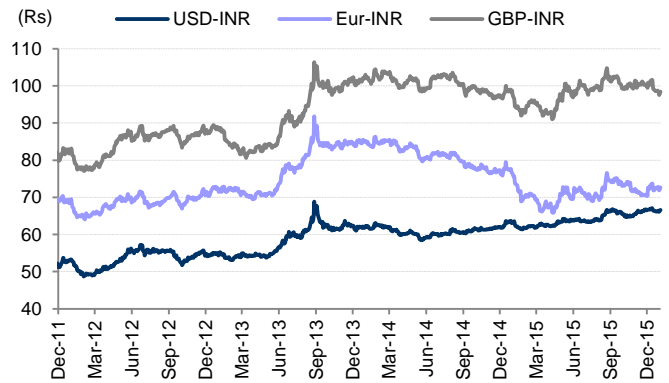


Source: Company, RCML Research



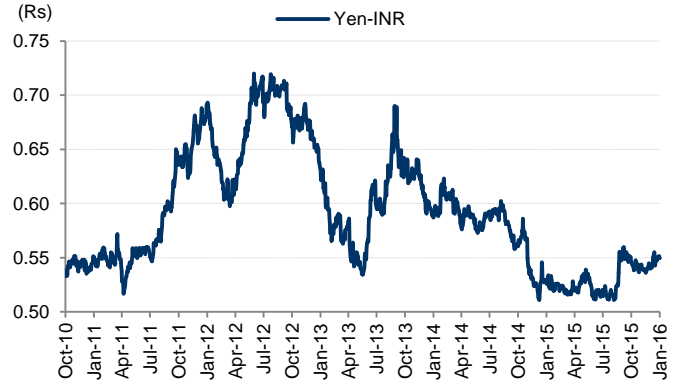
Trend in key variables

Fig 6 - Currency trend



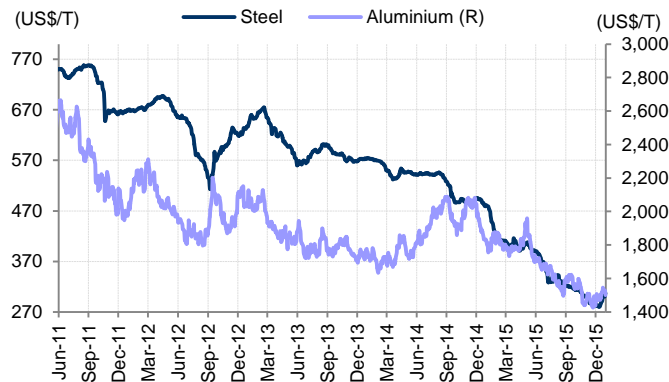
Source: Bloomberg, RCML Research

Fig 7 - Currency trend



Source: Bloomberg, RCML Research

Fig 8 - Metals price trend



Source: Bloomberg, RCML Research

Fig 9 - Rubber price trend



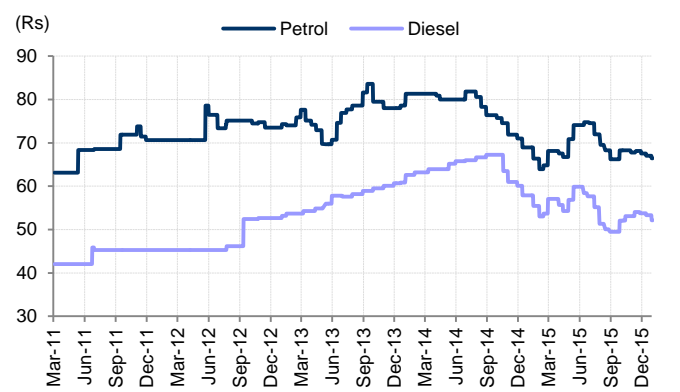
Source: Bloomberg, RCML Research

Fig 10 - G-sec (10-yr) yield trend



Source: Bloomberg, RCML Research

Fig 11 - Fuel price trend



Source: Industry, RCML Research



Fig 12 - Movement in commodity prices and currencies (quarterly average)

	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16
Price per tonne					
Steel (USD per tonne)	503	470	393	307	268
Aluminium (USD per tonne)	1,968	1,801	1,767	1,594	1,494
Lead (USD per tonne)	2,001	1,810	1,938	1,718	1,682
Rubber (Rs per tonne)	11,970	12,606	12,617	11,846	10,874
% change QoQ					
Steel	(1.5)	(6.7)	(16.3)	(21.8)	(12.8)
Aluminium	(1.0)	(8.5)	(1.9)	(9.8)	(6.3)
Lead	(8.2)	(9.5)	7.0	(11.3)	(2.1)
Rubber	(9.8)	5.3	0.1	(6.1)	(8.2)
Currencies					
INR/USD	62.0	62.3	63.5	64.9	65.9
INR/JPY	0.54	0.52	0.52	0.53	0.54
INR/GBP	98.09	94.34	94.24	100.68	100.02
INR/EUR	77.38	70.22	70.30	72.19	72.22
GBP/USD	0.63	0.66	0.65	0.65	0.66
GBP/EUR	0.79	0.74	0.72	0.72	0.72
% change QoQ					
INR/USD	2.4	0.4	2.0	2.2	1.6
INR/JPY	(6.9)	(3.7)	0.1	1.7	2.1
INR/GBP	(3.0)	(3.8)	(0.1)	6.8	(0.7)
INR/EUR	(3.6)	(9.3)	0.1	2.7	0.0
GBP/USD	5.5	4.5	(1.1)	(1.1)	2.2
GBP/EUR	(0.6)	(5.7)	(2.9)	(0.5)	0.5

Source: Bloomberg

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