

Mini segment recovery helps Maruti gain market share

Compact UVs facing heated competition

- Mini segment recovering from demonetization blues:** Kwid volumes stood at only 7k units in May-17, down from average of 9.1k units in FY17. On the other hand, Alto reported volumes of 23.6k units (nine-month high), up 19% YoY. **Maruti's share in the Mini segment is at a yearly high of ~74%.**
- Compact segment receives Baleno push:** Baleno volumes increased 46% YoY to 14.6k units in May-17. Grand i10 and i20 reported volumes of 13k units (up ~8% YoY) and 10.7k (up ~2% YoY) units, respectively. Celerio reported volumes of 6.1k units (nine-month low) in May, down 17% YoY. Tiago continued to report strong volumes at 4.9k units, up 49% YoY. IGNIS volumes stood at 4.5k units in May (its fifth month since launch) v/s average of 4.8k units in FY17.
- Compact sedan segment sees flurry of refreshes/facelifts:** New Dzire reported volumes of only 9k units as May included only part of wholesale volumes. Tigor reported 2.3k units in its third month. Due to competition from new Dzire, volumes of peers like Amaze (1.3k units), Xcent (3.8k units) and Zest (1.4k units) declined 6%, 19% & 13%, respectively, in May.
- Mid-size segment:** CIAZ reported volumes of 4.7k units, down 9% YoY, due to the transition to the Nexa channel, while Honda City volumes were at 4k units.
- UV-1 segment (compact SUVs) – competition heating up:** Brezza reported highest volumes at 12.4k units, as against average of 9k units in FY17, while Creta reported volumes of 8.4k units. KUV100 continues to struggle at 2k units, whereas TUV300 is stable at ~2.3k units. Ertiga reported volumes at 7.1k units (44-month high), while Bolero volumes stood at 6k units, as against average of 4.7k units in FY17. Ford EcoSport volumes were consistent at ~3.5k units. Honda WR-V reported volumes of 2.8k units in its third month of launch. **In the UV-1 segment, Maruti's market share is at ~45%, as against average of 38% in FY17, while MM's share was at ~22%, as against ~25% in FY17.**
- UV-2 segment – MM gradually recovering:** Scorpio reported volumes of 4.7k units, as against average of 4.1k units in FY17, while XUV500 volumes were at 2.1k units, as against average of 2.2k units in FY17. MM is gradually gaining ground in its bread & butter models. Hexa reported paltry volumes of 727 units in its fifth month since launch. Innova reported volumes of 5.6k units, down 22% YoY. In this segment, **MM is the leader with ~54% market share, as against 44% in FY17.**
- Overall market share:** Maruti's market share in the PV segment was at ~52%, as against 47.4% in FY17. Hyundai maintained its share at ~27%, followed by MM (~8%) and Tata Motors (~5%).
- Exports:** Maruti Baleno's export volumes have been declining over the last three months; however, its overall mix is improving led by higher Ertiga, Brezza and Baleno domestic volumes.

Pawan Goenka, MD

Mahindra & Mahindra, said

"We will put in another Rs 600 crore in the next couple of years to take the cumulative total to Rs 1,200 crore not including product development spend and the investment in the high-end luxury electric vehicle being developed by Pininfarina. To that end, the company has also restructured its entire electric vehicle business using its the earlier Mahindra Reva plant in Bengaluru to make electric powertrains only. We are working on increasing productivity and launching a new 360-600 V powertrain that will go into the Pininfarina badged luxury electric car, small buses and other high-end vehicles. It will also be used by SsangYong for its e-vehicle range".

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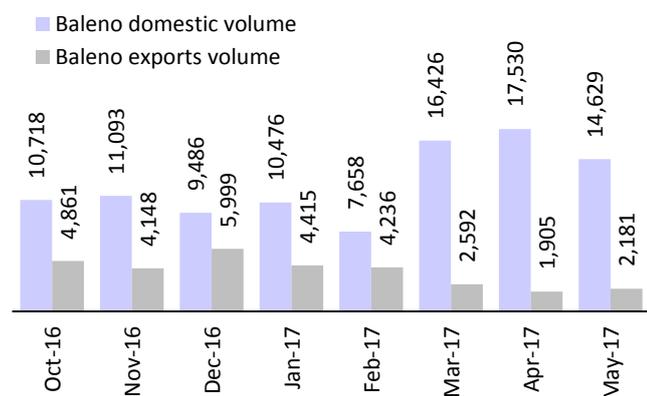
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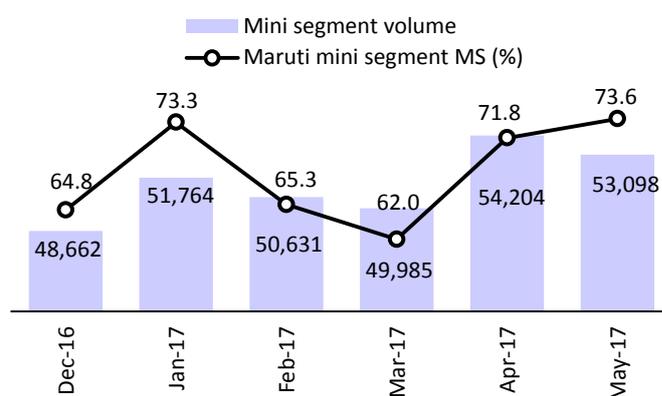
- Valuation and view:** We prefer 4Ws over 2Ws and CVs due to stronger volume growth and a stable competitive environment. While we expect 2W volumes to benefit from a rural recovery in the near term, competitive intensity remains high in the segment due to changing customer preferences. For CVs, we expect volumes to remain muted at least for the next 2-3 quarters due to pre-buying, GST implementation and cost inflation with relatively weak freight availability. Our **top picks are Tata Motors, Maruti Suzuki and Amara Raja**. We also like **MM as the best bet on a rural market recovery**.

Exhibit 1: Baleno domestic volumes inch up, while exports decline



Source: SIAM, Company, MOSL

Exhibit 2: Mini segment recovering post demonetization, Maruti is the key beneficiary



Source: SIAM, Company, MOSL

Exhibit 3: New Dzire to ramp-up post transition phase, the old Dzire to replace the present Dzire Tour

	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17
Total Dzire (incl. Tour)	17,682	17,218	14,643	18,088	16,613	15,894	8,797	9,413
New Dzire	-	-	-	-	-	-	191	9,073
Dzire Tour	2,481	3,017	2,559	3,001	2,574	1,166	-	-
Old Dzire (now Dzire Tour)	15,201	14,201	12,084	15,087	14,039	14,728	8,606	340

Source: SIAM, Company, MOSL

Exhibit 4: MM market share gradually recovering post demonetization

	FY12	FY13	FY14	FY15	FY16	FY17	YTD FY18
UV2 segment volume	165,624	250,029	208,350	190,136	187,045	218,504	32,008
M&M market share	55.6	55.6	54.6	58.1	56.4	43.7	51.4
Toyota market share	34.7	30.8	26.5	33.0	29.5	36.2	38.2

Source: SIAM, Company, MOSL

Exhibit 5: Domestic UV1 segment continues to thrive, Brezza the top seller

	FY12	FY13	FY14	FY15	FY16	FY17	May-17
UV1 total volume	135,992	272,922	290,019	319,028	368,857	512,567	50,665
Maruti	4.8	29.0	21.1	21.4	25.6	38.2	44.6
M&M	75.0	45.1	35.8	29.6	31.4	24.8	21.6
Honda	0.0	0.0	0.0	9.6	2.2	1.2	5.6
Renault	0.0	14.4	16.1	12.3	4.9	3.7	2.8
Ford	0.0	0.0	15.5	16.3	10.9	9.5	7.0
Hyundai	0.0	0.0	0.0	0.0	17.3	18.9	16.5
Others	20.2	11.5	11.5	10.8	7.8	3.8	18.3

Source: SIAM, Company, MOSL

Exhibit 6: Domestic PV market share, Maruti at a new high

Domestic PV	FY12	FY13	FY14	FY15	FY16	FY17	May-17
Maruti	32.1	39.4	42.1	45.0	46.8	47.4	51.8
Hyundai	12.4	14.4	15.2	16.2	17.4	16.7	16.7
M&M	6.8	11.7	10.1	9.6	8.8	7.7	8
Tata Motors	10.0	11.8	7.9	6.2	5.3	5.7	5.0
Honda	1.7	2.5	5.4	7.3	6.9	5.2	4.5
Toyota	5.1	6.2	5.1	5.4	4.6	4.7	4.3
Ford	3.0	2.9	3.4	2.9	2.9	3.0	2.7
VW	2.5	2.4	2.1	1.8	1.5	1.6	0.7
Others	26.5	8.7	8.7	5.7	5.9	8.1	6.4

Source: SIAM, Company, MOSL

Exhibit 7: Comparative valuations

	CMP	Rating	TP	P/E (x)		EV/EBITDA (x)		RoE (%)		Div Yld (%)		EPS CAGR (%)
				FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	
	INR		(INR)									FY17-19E
Auto OEM's												
Bajaj Auto	2,816	Buy	3,422	18.7	15.8	12.7	10.4	24.1	25.6	2.3	2.8	16.1
Hero MotoCorp	3,801	Neutral	3,622	19.2	18.9	12.4	12.2	35.9	31.3	2.4	2.4	9.1
TVS Motor	549	Buy	581	32.8	20.5	21.8	14.0	29.2	35.9	0.5	0.8	51.0
M&M	1,390	Buy	1,619	20.0	17.0	14.7	12.8	14.2	14.4	1.4	1.4	22.6
Maruti Suzuki	7,215	Buy	8,325	24.1	19.5	14.6	12.1	21.2	22.3	1.2	1.4	22.1
Tata Motors	467	Buy	635	15.2	7.1	4.4	2.8	16.5	27.8	0.1	0.1	82.3
Ashok Leyland	93	Buy	117	17.0	13.2	8.4	6.6	24.4	26.9	2.1	2.4	23.9
Eicher Motors	27,878	Buy	30,402	31.3	24.6	26.1	21.4	41.9	38.5	0.5	0.6	36.0
Auto Ancillaries												
Bharat Forge	1,182	Buy	1,242	31.4	23.8	18.6	14.9	19.9	22.5	0.8	0.8	37.8
Exide Industries	225	Buy	273	23.9	19.1	15.2	12.4	14.4	15.8	1.0	1.0	20.1
Amara Raja Batt.	835	Buy	1,044	24.2	20.0	13.5	11.0	20.8	21.2	0.6	0.8	22.1
BOSCH	24,715	Neutral	23,287	38.0	31.8	25.9	21.7	21.2	22.2	0.9	1.1	28.1
Endurance Tech	904	Buy	948	29.4	23.9	14.5	12.2	22.6	23.1	0.4	0.8	27.1

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