

“Kharif sowing is up 3% on a YoY basis and 7% higher than the average of the past 10 years. We expect the Tractor industry to do well even in FY22.” – Mr. Hemant Sikka, President - Farm Equipment Sector, M&M

Momentum sustained for PVs, CVs and Tractors...

... 2W OEMs increase discounts to push volumes

- Demand momentum in Jan'21 sustained in Feb'21 across segments. Discounts were lower as Feb'20 had BS-VI transition-related discounts. Inventory is much lower than normal for PVs and Tractors, leaving headroom to fill inventory in the coming months. Wholesales are expected to grow for replenishing abnormally low inventory for PVs and Tractors.
- Our interaction with leading industry channel partners reflects optimism (excluding 2Ws). Weak demand results in higher 2W inventory (30-45 days). However, PV inventory remains at minimal levels (less than 10 days), with a waiting period of 4-6 weeks in fast-selling models. M&HCVs continue to grow on the back of strong demand from Infrastructure/Construction, while the Cargo segment is recovering slowly with an increase in capacity utilization. Demand for Tractors remains strong, with inventory at 10-30 days.
- Wholesales in Feb'21 are expected to grow YoY on a low base for all segments, excluding 3Ws. In Feb'21, wholesale volumes are estimated to grow at 13% for 2Ws, largely driven by exports, and 20% for PVs due to supply-side issues. CV volumes are likely to grow by 37% (LCV growth of 58%, M&HCVs by 17%). Wholesale volumes for Tractors are expected to grow by 27% YoY on robust demand.
- 2Ws: Demand for Entry-level models remained subdued, whereas the Premium segment saw some recovery. Feb'21 had just one auspicious day for weddings v/s 10 days in Feb'20. The pain will continue till mid-April. OEMs increased discounts for Entry-level models to push sales. BJAUT offered discounts of INR3k/INR5k/INR2k on CT100/Platina/Pulsar Drum brake model. The same for HMCL stood at INR1-2k. Dealers are holding inventory of 1-1.5 months. The waiting period for REs has reduced to 1-2 weeks for Classic/Bullet, while Meteor has a waiting period of 8-12 weeks. We expect ~18.6% growth in wholesales for BJAUT's 2Ws (6% growth in domestic 2Ws), 14% for TVSL, 10% for HMCL, and 7.5% for RE.
- PVs: The strong demand momentum continues in PV. However, retail sales were restricted by supply-side challenges. PVs have a higher waiting period across OEMs. TTMT continues to benefit from a refreshed product portfolio and recent launches. There is increased interest in its fitted CNG models due to higher petrol prices. Volumes for MSIL/MM/TTMT are expected to grow by ~13.4%/30%/120%.
- CVs: Demand for M&HCVs from the Infrastructure segment remains strong. The Cargo segment is also recovering, albeit slower than expected. Discounts have fallen by 2-3% to 13-15% due to strong demand and a shortage of certain models (in the high tonnage segment). Moreover, our channel check suggests that OEMs are refraining from a price war to increase sales. Financiers have relaxed credit terms and increased LTV to 85-90%, leading to an increase in inquiries and conversions. Higher tonnage segments continue to dominate due to greater demand from the Infrastructure segment. LCV and SCV demand continue their growth momentum. Launch of AL's Bada Dost in the remaining parts of India would further boost LCV sales. We expect AL's wholesales to grow by 21.7% YoY (6% for M&HCVs) and that for TTMT to grow by 31% (25% for M&HCVs and 35% for LCV).

- **Tractors: Demand has sustained due to good rabi sowing and preference for farm mechanization. Both MM and ESC are operating at full capacity. Sales remains skewed towards higher HP Tractors due to higher demand from the Agriculture segment and low base. Commercial use of Tractors is also picking up. Dealers are holding lower inventory (10-30 days). We expect Tractor volumes to grow by 30%/18% YoY for MM/ESC due to higher demand.**
- **Valuation and view: Feb'21 saw sustained demand across segments (excluding 2W). Current valuations are largely factoring in sustained recovery (our base case), leaving a limited margin of safety for any negative surprises. We prefer companies with: a) higher visibility in terms of a demand recovery, b) a strong competitive positioning, c) margin drivers, and d) Balance Sheet strength. MSIL and MM are our top OEM picks. Among auto component stocks, we prefer ENDU and MSS.**

Volume snapshot for Feb'21

Company	YoY			MoM					FY21 estimate	Growth (%)	Residual growth (%)	Residual monthly run-rate
	Feb'21	Feb'20	Change (%)	Jan-21	Change (%)	FY21 YTD	FY20 YTD	Change (%)				
Maruti Suzuki	1,66,786	1,47,110	13.4	1,60,752	3.8	12,93,164	14,79,505	-12.6	14,72,199	-5.8	115.4	1,79,035
Domestic	1,57,551	1,36,849	15.1	1,48,307	6.2	12,10,873	13,82,046	-12.4	13,84,152	-5.2	121.0	1,73,279
Export	9,235	10,261	-10.0	12,445	-25.8	82,291	97,459	-15.6	88,047	-13.8	22.3	5,756
Mahindra & Mahindra	69,386	55,037	26.1	73,927	-6.1	6,47,869	7,56,944	-14.4	7,27,948	-6.4	281.1	80,079
UV (incl. Pick-ups)	36,098	27,768	30.0	35,757	1.0	3,02,595	3,95,691	-23.5	3,42,193	-15.0	474.8	39,598
LCV and M&HCV	692	865	-20.0	551	25.6	3,589	11,185	-67.9	4,711	-58.2	1133.1	1,122
Three-Wheelers	3,267	3,843	-15.0	2,841	15.0	16,974	61,766	-72.5	21,765	-65.0	1038.2	4,792
Tractors	29,329	22,561	30.0	34,778	-15.7	3,24,711	2,88,302	12.6	3,59,279	19.0	153.9	34,568
Tata Motors	64,286	40,634	58.2	59,959	7.2	417,879	460,383	-9.2	485,759	2.6	422.4	67,880
HCVs	14,128	11,302	25.0	12,756	10.7	72,377	120,766	-40.1	92,038	-26.0	434.3	19,661
LCVs	22,658	16,784	35.0	20,153	12.4	152,604	212,741	-28.3	180,277	-16.6	687.7	27,673
CVs	36,786	28,086	31.0	32,909	11.8	224,981	333,507	-32.5	272,315	-20.1	558.1	47,335
Cars	17,000	7,761	119.0	16,382	3.8	121,498	69,800	74.1	133,289	84.5	386.2	11,791
UVs	10,500	4,787	119.3	10,668	-1.6	71,400	57,076	25.1	80,155	32.6	159.3	8,755
Hero MotoCorp	5,48,066	4,98,242	10.0	4,85,889	12.8	52,57,338	60,75,072	-13.5	58,33,535	-9.0	72.2	5,76,197
Bajaj Auto	4,08,269	3,54,913	15.0	4,25,199	-4.0	36,36,718	43,72,637	-16.8	40,21,271	-12.9	58.5	3,84,552
Two-Wheelers	3,68,038	3,10,222	18.6	3,84,936	-4.4	33,11,235	37,36,592	-11.4	36,55,580	-7.4	63.2	3,44,344
Three-Wheelers	40,231	44,691	-10.0	40,263	-0.1	3,25,483	6,36,045	-48.8	3,65,691	-45.2	27.2	40,208
Ashok Leyland	13,971	11,475	21.7	13,126	6.4	83,765	1,23,076	-31.9	1,05,532	-15.7	905.9	21,768
CV (excluding LCV)	7,810	7,368	6.0	7,374	5.9	40,727	76,778	-47.0	55,013	-30.0	686.7	14,286
LCV	6,161	4,107	50.0	5,752	7.1	43,038	46,298	-7	50,519	8.3	2049.9	7,482
TVS Motor	2,83,672	2,53,261	12.0	3,07,149	-7.6	27,15,105	31,18,729	-12.9	29,81,856	-8.6	84.3	2,66,752
Eicher Motors												
Royal Enfield	68,301	63,536	7.5	68,887	-0.9	5,44,644	6,60,025	-17.5	6,17,149	-11.3	101.8	72,505
VECV	5,303	4,586	15.6	5,673	-6.5	34,074	47,222	-27.8	40,695	-16.5	341.7	6,621
Escorts	10,149	8,601	18.0	9,021	12.5	93,323	80,574	15.8	1,05,372	22.5	121.3	12,049
Domestic	9,649	8,049	19.9	8,510	13.4	89,077	77,024	15.6	1,00,626	22.3	120.9	11,549
Exports	500	552	-9.4	511	-2.2	4,246	3,550	20	4,746	26.0	131.5	500

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