

## Gradual improvement in demand to cushion overall growth

We expect 3QFY21 earnings for Auto & Auto Ancillary to witness sequential growth driven by healthy volume recovery and cost control measures. Pent-up demand, increased preference for personal mobility and strong rural sentiments has enabled to revive the sector. Ramp-up in production post unlocking measures has helped to fill channel inventory. Tractor, PV and 2W OEMs witnessed good pent-up demand, aided by strong rural and semi-urban markets. CV segment is gradually witnessing a recovery led by increase in construction activities and national infrastructure projects. Various cost control measures and increasing capacity utilization will enable to drive operating margins. However, commodity prices have increased sharply during the quarter which is expected to increase further as well. **Overall, our auto coverage is expected to post Revenue/EBITDA/PAT growth of 16.7%/17.5%/16% YoY respectively in Q3FY21.**

### Maruti Suzuki

Maruti Suzuki is expected to post a healthy Q3FY21 performance on account of strong volume during the quarter. We expect Revenue to clock at INR 233 bn, up 12.5% YoY with an EBITDA of INR 25 bn, up by 21.2% YoY EBITDA margins to be at 10.9% led by operating efficiency, lower discounts and cost reduction. Net profit to increase by 15.6% YoY to INR 18.3 bn YoY.

### Mahindra & Mahindra

We expect M&M's revenue to witness an uptick of 15.2% YoY to INR 139.5 bn led by total volume growth is positive at 3% and a 20% growth in the Farm segment We expect EBITDA margin to grow by 120 bps to 16% YoY due to expand on better mix and cost reduction efforts. Net profit is expected to stand at INR 13.6 bn YoY respectively.

### Ashok Leyland

We expect revenues to increase by 19.7% YoY to INR 48.4 bn led by volume growth in LCV segment and some recovery in MHCV segment and export segments. EBITDA margins to grow by 160 bps on account of better scale and cost controls. we expect a net profit of INR 0.5 bn..

### Eicher Motors

We expect revenues to increase by 21% YoY to INR 28 bn driven by a 6% rise in volumes. EBITDA margin is likely to contract YoY by 120bps on account of limited pass on of BS-VI costs and increase in commodity prices We expect Net profit by 3.7% YoY to INR 5.1 bn.

### Escorts

Company is expected to deliver an operationally healthy performance majorly on account of higher volumes in tractors and construction equipment i.e an increase in revenue of 23.9% YoY to INR 20bn. EBITDA is expected to be at INR 3.3 bn with an improvement in EBITDA margin by 360 bps due to operating leverage and cost saving efforts on yearly basis.

### Bajaj Auto

We expect revenues to witness an uptick by 17.6% YoY to INR 87.4 bn supported by volume growth in 2Ws in both domestic and export segments. EBITDA is expected to be at INR 15.1 bn. EBITDA margin is expected to get contracted by 110 bps due to higher input costs and limited pass on of BS-VI costs.

### TVS motors

We expect TVS motors revenue to increase by 11.4% YoY to INR 53 bn led by surplus volume growth in 2Ws. EBITDA margin is likely to contract by 400 bps due to adverse mix, higher input costs. Moreover, Net profit is expected to remain at INR 2.3bn.

### Hero motocorp

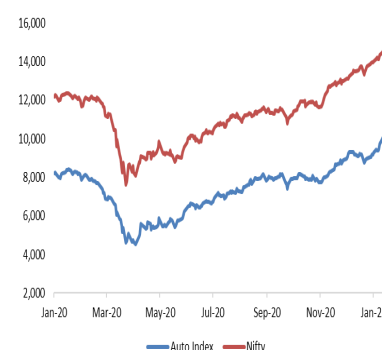
Revenues are expected to grow by 31.1% YoY to INR 92 bn led by strong volume growth. EBITDA margin to contract by 200 bps due to increase in commodity prices and adverse currency movement. Net profit to remain at INR 8.7bn.

### CEAT

We expect revenues to stand at INR 19.6 bn with a growth of 11.8% on YoY basis, driven by strong replacement demand and new order wins in OEM business. EBITDA margin to witness a growth of 190 bps driven by better product mix, cost control measures. Net profit to remain at INR 0.9 bn.

Performance (%)	1m	3m	1Yr
Maruti	3	13	4
M&M	11	34	43
Ashok Leyland	16	52	36
Eicher motors	14	25	33
Escorts	-4	9	82
Bajaj Auto	5	16	13
TVS motors	1	7	2
Hero motocorp	-1	-7	27
CEAT	10	23	20

### Relative Price Chart



### Our Top Picks:

- ⇒ Hero Motocorp
- ⇒ Ashok Leyland
- ⇒ Eicher motors

Research Analyst

Kuber Chauhan

Kuber@bpwealth.com

## Q3FY21E Earnings Preview

### Volume (in units)

Company	Q3FY21	Q3FY20	Y-o-Y(%)	2QFY21	Q-o-Q(%)
Maruti	4,95,897	4,37,361	13.4%	3,93,130	26.1%
Mahindra & Mahindra	2,23,978	2,16,816	3.3%	1,85,270	20.9%
Ashok Leyland	33,410	31,200	7.1%	19,444	71.8%
Eicher motors	2,12,470	2,01,534	5.4%	1,57,287	35.1%
Escorts	31,562	25,109	25.7%	24,441	29.1%
Bajaj Auto	13,06,810	12,02,486	8.7%	10,53,337	24.1%
TVS motors	9,89,517	8,21,521	20.4%	8,67,834	14.0%
Hero motocorp	18,45,274	15,40,868	19.8%	18,14,683	1.7%

Source: Company, BP Equities Research

### Estimates (in mn) for Q3FY21

Company	Revenues			EBITDA			EBITDA Margin (%)		PAT			PAT Margin (%)	
	Q3FY21E	Q3FY20	Y-o-Y (%)	Q3FY21E	Q3FY20	Y-o-Y (%)	Q3FY21E	Q3FY20	Q3FY21E	Q3FY20	Y-o-Y (%)	Q3FY21E	Q3FY20
Maruti	2,33,100	2,07,218	12.5%	25,507	21,050	21.2%	10.9%	10.2%	18,351	15,869	15.6%	7.9%	7.7%
Mahindra & Mahindra	1,39,597	1,21,203	15.2%	22,267	17,888	24.5%	16.0%	14.8%	13,610	9,808	38.8%	9.7%	8.1%
Ashok Leyland	48,496	40,517	19.7%	3,477	2,252	54.4%	7.2%	5.6%	563	292	92.9%	1.2%	0.7%
Eicher motors	28,432	23,505	21.0%	6,815	5,923	15.1%	24.0%	25.2%	5,169	4,987	3.7%	18.2%	21.2%
Escorts	20,444	16,502	23.9%	3,375	2,130	58.4%	16.5%	12.9%	2,578	1,549	66.4%	12.6%	9.4%
Bajaj Auto	87,459	74,364	17.6%	15,153	13,671	10.8%	17.3%	18.4%	13,604	13,224	2.9%	15.6%	17.8%
TVS motors	53,073	47,660	11.4%	4,710	6,132	-23.2%	8.9%	12.9%	2,323	1,506	54.3%	4.4%	3.2%
Hero motocorp	92,764	70,749	31.1%	11,988	10,576	13.3%	12.9%	14.9%	8,744	9,018	-3.0%	9.4%	12.7%
CEAT	19,693	17,618	11.8%	2,422	1,832	32.2%	12.3%	10.4%	938	528	77.7%	4.8%	3.0%

Source: Company, BP Equities Research

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**Corporate Office:**

4th floor,  
Rustom Bldg,  
29, Veer Nariman Road, Fort,  
Mumbai-400001  
Phone- +91 22 6159 6464  
Fax-+91 22 6159 6160  
Website- [www.bpwealth.com](http://www.bpwealth.com)

**Registered Office:**

24/26, 1st Floor, Cama Building,  
Dalal street, Fort,  
Mumbai-400001

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