

Sequential improvement in demand and lower base to augur well

We expect 4QFY21 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. All such factors are expected to leverage the operational performance of OEMs. However, most of them have taken a price hike across their models to mitigate the risk of commodity costs. Going ahead, the rising case of covid-19 and stringent lockdown measures can impact the overall sales in near term. **Overall, our auto coverage is expected to post Revenue/EBITDA/PAT growth of 14.1% /15.5% /85.3% YoY respectively in 4QFY21.**

Maruti Suzuki

Maruti Suzuki is expected to post a healthy 4QFY21 performance on account of strong volume during the quarter. We expect Revenue to clock at INR 238 bn, up 38.5% YoY with an EBITDA of INR 21 bn, up by 39.5% YoY. EBITDA margins to be at 9.1% led by operating efficiency, lower discounts and cost reduction. Net profit to increase by 28.1% YoY to INR 16 bn.

Mahindra & Mahindra

M&M's revenue to witness a decline in revenue by 35.6% YoY to INR 129 bn led by lower volume growth sequentially in auto as well as farm segment. We expect EBITDA margin to grow by 240 bps due to cost reduction initiatives and a better product mix. Net profit is expected to remain at INR 10 bn.

Ashok Leyland

We expect revenues to increase by 75% YoY to INR 66 bn led by volume growth in LCV segment, recovery in MHCV segment and export segments. Despite adverse mix and higher commodity prices, EBITDA margin is likely to expand by 160 bps on a better mix. Net profit likely to stand at INR 1.5 bn.

Eicher Motors

We expect revenues to increase by 37% YoY to INR 30 bn driven by 6% QoQ rise in volumes. EBITDA margin to improve by 230bps on account of positive operating leverage. Realizations is expected to improve due to price hikes. Net profit to remain at INR 5 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 53% YoY to INR 2bn. EBITDA is expected to be at INR 3.3 bn with an improvement in EBITDA margin by 260 bps due to operating leverage and cost saving efforts on yearly basis.

Bajaj Auto

We expect revenues to witness an uptick by 21.8% YoY to INR 80 bn. EBITDA is expected to be at INR 13 bn. EBITDA margin is expected to get contracted by 160 bps due to higher input and lower operating leverage. Net profit to be at INR 12 bn.

TVS motors

We expect TVS motors revenue to increase by 26.9% YoY to INR 52 bn led by surplus volume growth in 2W segment. EBITDA margin is likely to contract by 480 bps due to adverse mix, higher input costs. Moreover, Net profit is expected to stand at INR 2bn.

Hero motocorp

Revenues are expected to grow by 31.1% YoY to INR 83 bn led by strong volume growth. EBITDA margin to improve by 150 bps led by better mix and price hikes across its models. Net profit to remain at INR 7bn.

CEAT

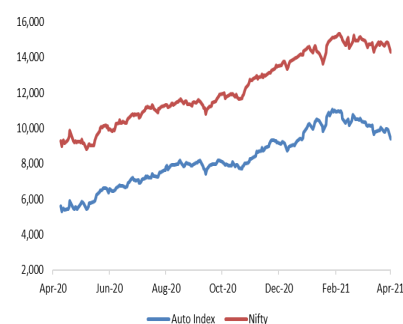
We expect revenues to stand at INR 20 bn with a growth of 33% on YoY basis driven by strong replacement demand and OEM business. EBITDA margin to witness a growth of 70 bps due to higher input cost. Net profit to remain at INR 0.5 bn.

Lumax Industries

Revenues are expected to stand at INR 4 bn with a growth of 19% on YoY basis led by increase in order book for lamps across OEM players. EBITDA margin to stand at 11% led by strong operating efficiencies. Net profit to be expected to remain at INR 0.2 bn

Performance (%)	1m	3m	1Yr
Maruti Suzuki	-6	-17	30
M&M	-4	30	127
Ashok Leyland	-8	54	140
Eicher motors	-10	-15	81
Escorts	-10	-8	70
Bajaj Auto	-2	18	54
TVS motors	-8	18	96
Hero motocorp	-12	-10	57
CEAT	-12	20	80
Lumax Industries	-5	14	43

Relative Price Chart



Our preferred Picks:

- ⇒ Maruti Suzuki
- ⇒ Ashok Leyland
- ⇒ Escorts

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4QFY21E Earnings Preview

Volume (in units)

Company	4QFY21	4QFY20	YoY(%)	3QFY21	QoQ(%)
Maruti	4,92,235	3,85,025	27.8%	4,95,897	-0.7%
Mahindra & Mahindra	2,02,223	1,51,713	33.3%	2,23,978	-9.7%
Ashok Leyland	44,060	25,504	72.8%	33,410	31.9%
Eicher motors	2,37,716	1,80,104	32.0%	2,24,704	5.8%
Escorts	32,588	20,108	62.1%	31,562	3.3%
Bajaj Auto	11,69,664	9,91,911	17.9%	13,06,810	-10.5%
TVS motors	9,27,579	6,32,920	46.6%	9,89,517	-6.3%
Hero motocorp	15,68,313	15,40,868	1.8%	18,45,274	-15.0%

Source: Company, BP Equities Research

Estimates (in mn) for 4QFY21

Company	Revenues			EBITDA			EBITDA Margin (%)		PAT			PAT Margin (%)	
	4QFY21E	4QFY20	Y-o-Y (%)	4QFY21E	4QFY20	Y-o-Y (%)	4QFY21E	4QFY20	4QFY21E	4QFY20	Y-o-Y (%)	4QFY21E	4QFY20
Maruti	2,38,085	1,71,873	38.5%	21,592	15,480	39.5%	9.1%	9.0%	16,937	13,222	28.1%	7.1%	7.7%
Mahindra & Mahindra	1,29,995	2,01,823	-35.6%	18,689	24,146	-22.6%	14.4%	12.0%	10,680	(13,346)	NA	8.2%	-6.6%
Ashok Leyland	66,826	50,622	32.0%	4,304	7,048	-38.9%	6.4%	13.9%	1,538	181	NA	2.3%	0.4%
Eicher motors	30,075	21,903	37.3%	6,615	4,322	53.1%	22.0%	19.7%	5,389	3,043	77.1%	17.9%	13.9%
Escorts	21,248	13,857	53.3%	3,340	1,821	83.5%	15.7%	13.1%	2,578	1,279	NA	12.1%	9.2%
Bajaj Auto	80,533	66,109	21.8%	13,956	12,526	11.4%	17.3%	18.9%	12,895	13,540	-4.8%	16.0%	20.5%
TVS motors	52,107	41,047	26.9%	4,393	5,223	-15.9%	8.4%	12.7%	2,337	741	NA	4.5%	1.8%
Hero motocorp	83,019	63,339	31.1%	10,223	6,859	49.0%	12.3%	10.8%	7,621	6,046	26.0%	9.2%	9.5%
CEAT	20,919	15,734	33.0%	2,512	2,004	25.4%	12.0%	12.7%	970	519	86.9%	4.6%	3.3%
Lumax Industries	4,620	3,873	19.3%	508	337	50.9%	11.0%	8.7%	210	164	28.4%	4.5%	4.2%

Source: Company, BP Equities Research, NA=Not Available

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