

Automobiles

2Ws recover gradually; Pre buying impact on CV not significant

In March'17, most OEMs including Royal Enfield, Ashok Leyland and M&M (FES) reported better than expected numbers while Tata Motors CV and M&M PV posted a muted performance. We believe the impact of demonetization on 2Ws is gradually subsiding with MoM improvement in sales. Growth in 4W segment for the month was resilient and players like Maruti Suzuki/TAMO/VW reported strong volumes buoyed by recent launches. CV sales increased marginally YoY, however we have not seen a strong pre buying impact in 4QFY17.

- **2Ws – Demonetization impact subsiding:** 2W volumes recovered gradually with major OEMs (except BJAUT) coming in positive territory and above our expectations as impact of demonetization subsides. HMCL sales increased 1% YoY to 609K units. YTD sales increased 1% to 6.66 mn units. TVSL's overall 2W volumes grew +11% YoY/ +22% MoM (scooters sales grew +24% YoY, motorcycles: +10% YoY and mopeds remained flat YoY) while exports grew +24% YoY. BJAUT's 2W volumes were down -8% YoY/ flat on MoM.
- **4W** volumes have been resilient as companies having recently launched new models managed to post good growth. MSIL's domestic sales increased +8% YoY; Tata Motors sales increased 84% YoY to 15,433 units due recently launched Hexa and Tiago. Hyundai's volumes grew by +9%; Renault's volumes declined 2.5% YoY; Honda car sales increased 9% YoY, Volkswagen sales increased +34% YoY; whereas M&M PV sales declined -6% YoY.
- **CVs** saw a moderate increase in the M&HCV segment as we have not seen any major pre-buying in 4QFY17 ahead of the implementation of new emission norms. Tata Motors' total CV sales declined -6% YoY to 35,876 units (MHCV -5%; LCV -8%). Ashok Leyland and VECV reported 12% and 9% increase in sales respectively on a YoY basis. Ashok Leyland M&HCV sales increased 15% YoY to 15,258 units whereas LCV sales declined 1% YoY to 3,424 units.
- **Tractors** continued with the momentum with M&M and Escorts' domestic tractor sales increasing 29% and 32% YoY respectively.
- **View: We believe the demonetization impact is subsiding particularly in 2Ws, while 4Ws stay resilient.** We continue to believe FY18 would see strong volume recovery in 2Ws with low base effect aiding H2FY18 numbers and increased rural focus of govt. Maintain HMCL, MSIL and Eicher as our top picks.

Auto Sales Snapshot

Company	Mar-17	Mar-16	YoY (%)	Feb-17	MoM (%)	FY17	FY16	YTD (%)
2 Wheelers								
Bajaj (2W)	244,235	264,249	(7.6)	244,958	(0.3)	3,219,932	3,358,252	(4.1)
HMCL	609,951	606,542	0.6	524,766	16.2	6,663,903	6,631,484	0.5
TVS	250,979	226,643	10.7	206,247	21.7	2,857,704	2,568,443	11.3
RE	60,113	51,320	17.1	58,439	2.9	666,490	508,234	31.1
4 Wheelers								
MSIL	127,969	118,895	7.6	120,735	6.0	1,444,511	1,305,351	10.7
Hyundai	44,757	41,201	8.6	42,017	6.5	509,705	484,324	5.2
Renault	12,118	12,424	(2.5)	9,337	29.8	135,756	71,732	89.3
MM (PV)	25,352	26,885	(5.7)	20,605	23.0	236,204	236,307	(0.0)
Toyota	13,796	7,637	80.6	10,336	33.5	143,024	128,494	11.3
CV's								
AL	18,682	16,702	11.9	14,872	25.6	145,068	140,458	3.3
VECV	7,327	6,752	8.5	5,499	33.2	58,907	52,029	13.2
Tractors								
MM (D)	17,973	13,931	29.0	13,834	29.9	248,409	202,046	22.9
Escorts (D)	7,014	5,327	31.7	4,104	70.9	62,699	50,698	23.7

Source: Company, Emkay Research

Ashok Leyland	HOLD
CMP	Target Price
89	90
Bajaj Auto	HOLD
CMP	Target Price
2,784	2,750
Eicher Motors	ACCUMULATE
CMP	Target Price
23,544	27,000
Hero Motocorp	BUY
CMP	Target Price
3,202	3,700
Mahindra & Mahindra	ACCUMULATE
CMP	Target Price
1,287	1,450
Maruti Suzuki India	BUY
CMP	Target Price
6,072	6,400
Tata Motors	BUY
CMP	Target Price
470	535
TVS Motor	REDUCE
CMP	Target Price
436	320

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