2 Wheelers in a sweet spot – Flag bearer of the recovery in Automotive Segment

Indian two-wheelers faced a severe downturn in FY20 and are expected to fall further in FY21 due to COVID-19 and BSVI cost push; however, volumes should rebound by FY22E and FY23E on two years of low base. In light of COVID-19 pandemic, we expect the industry volumes to fall by ~12% in FY21E, followed by strong growth of ~18% and ~14% in FY22E and FY23E. We are bullish on the Indian 2W industry over the next 2-3 years. The auto volumes are back by almost adecade whereas the margins are at cyclical lows; we expect multi-fold earnings growth in the recovery period. We believe Hero Motocorp Ltd will outperform its peers on the back of strong rural demand and preference for entry-level motorcycles. Eicher Motors with its strong franchise and a renewed focus on new products is expected to do well. We are of the opinion that TVS Motors is trading at significantly higher multiples in comparison to other 2 wheeler OEMs and hence we expect limited upside from current levels. **We assume coverage on the two-wheeler industry with a BUY rating on Hero Motocorp Ltd (Hero), HOLD rating on Eicher Motors Ltd (EIM) and a SELL rating on TVS Motors Ltd (TVSL). We upgrade our rating from HOLD to BUY on Bajaj Auto Ltd (BJAUT).**

Covid-19 and Key Regulatory Changes amidst weak cycle

India's two-wheeler (2W) industry saw its worst downturn in a decade as volumes fell by 18% YoY in FY20 amid weakening economy and regulatory changes leading to higher insurance and road tax. Near-term outlook in the domestic market has been further weakened due to Covid-19 and the large 10-20% price hikes on account of transition to BSVI emission norms. Sharp fall in oil prices as a fall out of the demand destruction due to spread of Covid-19 will also hurt 2W exports, which were at a cyclical high after three strong years and hence likely to lag the domestic cycle. We expect FY22E and FY23E to be years of strong growth driven by domestic market as volumes would likely rebound after two years of steep fall, while exports are likely to normalize as crude prices stabilze in $40-50/bbl.

Resilient rural economy to support demand

We expect lesser impact of COVID-19 on the rural economy as compared to urban as the spread is largely in the latter (due to high population density), and agricultural income is likely to suffer less from the lock-down. Taking all the cues so far, we think rural India is better placed in terms of the virus severity, although the risk remains in the form of reverse migration. Farm income is improving due to better Rabi output, better yields, normal monsoon and better kharif sowing. Moreover, the recent reforms related to abolition of essential commodities act and sale of Agriculture Produce would help further support the farm incomes in years to come. Improving farm incomes is corroborated by the tractor sales data which indicates a revival in the rural economy. Since rural India is more inclined towards motorcycles, we see share of this segment increasing in 2Ws.

Shift in Preference towards Personal mobility over shared mobility

Covid-19 should also trigger a shift towards personal mobility, where a section of public transportation users would switch to 2Ws or smaller cars, especially in urban areas. A survey conducted by Hero Motocorp suggests that demand share has increased for personal 2W from people going to work, which clearly indicates a shift towards personal mobility. Also due to intermittent lockdowns still going on in many areas across the country, public transport is disrupted which is further boosting the growth for personal mobility.

Competitive intensity to remain high

We expect competition in 2Ws to stay high as OEMs will remain aggressive to protect and gain market share amid weak demand. Despite benign commodity price, we expect contraction in margins in FY21E amid subdued demand; likely downtrading would lead to adverse product mix and big cost push, but expect an improvement in FY22E as demand recovers. We expect downtrading happening over the medium term on account of BS-VI price increase, lower incomes and job losses if any.

We initiate coverage on Hero MotoCorp with a BUY rating as we believe that the rural revival and down-trading in a rising price scenario works well for its motorcycle sales. We prefer Eicher Motors for its strong franchise, long-term growth potential and a renewed focus on products and initiate with a HOLD rating as we believe that the Company is fairly valued at this juncture. We have a SELL rating on TVS Motor as we believe that the premium valuation is unwarranted owing to lower volume growth and pressure on margins. We upgrade our rating from HOLD to BUY on Bajaj Auto as we expect the Company to fare well in the current environment on the back of its diversified portfolio mix and dual focus on entry and premium segment.

Key Financials (Standalone)

Companies	Rating	Market Cap Rs (Crs)	CMP (Rs)	Target Price (Rs)	% Up /Down	EPS (Rs)			P/E (x)		
						F21E	F22E	F23E	F21E	F22E	F23E
Hero Motocorp	Buy	62,742	3,141	3,450	9.8%	137.9	179.0	215.6	22.8	17.6	14.6
Eicher Motors	Hold	61,097	2,236	2,400	7.3%	55.2	72.1	88.7	40.5	31.0	25.2
TVS Motors	Sell	21,811	459	400	12.8%	10.3	17.1	18.2	55.2	30.5	25.2
Bajaj Auto	Buy	88,112	3,045	3,300	8.4%	157.6	179.7	198.7	19.3	16.9	15.3

Source: Company, Axis Securities

Story in Charts

Exhibit 1: Trend in 2W Industry Volume & Volume Growth

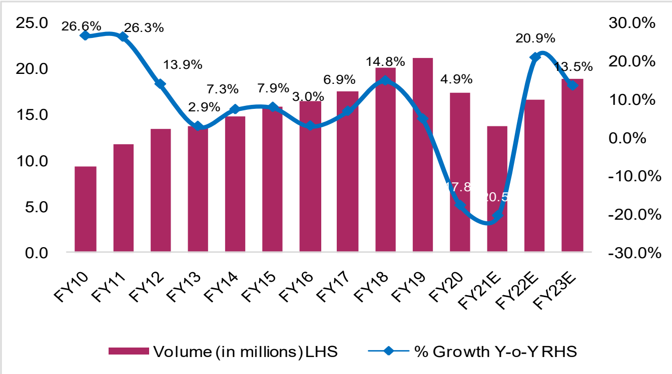
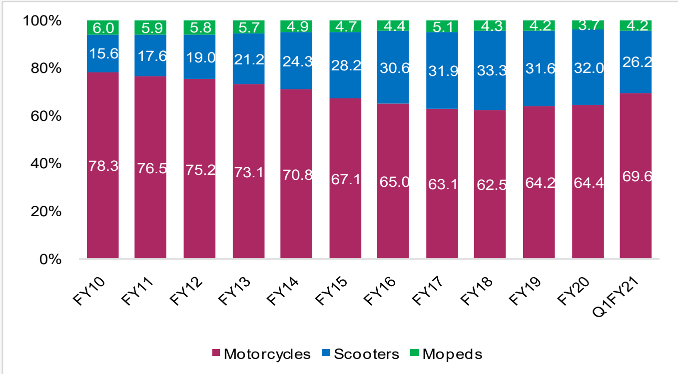


Exhibit 2: Domestic 2W Industry mix



Source: Company, Axis Securities

Exhibit 3: Trend in total 2W market share

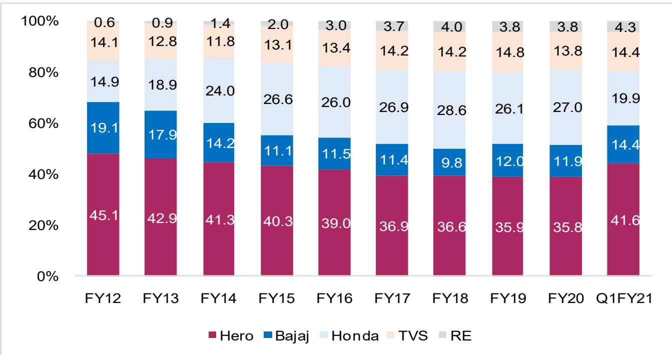
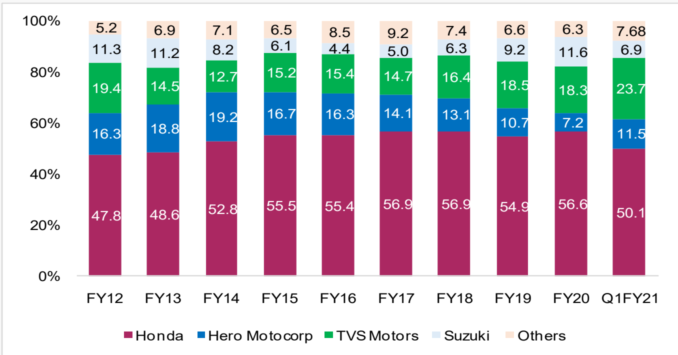


Exhibit 4: Trend in Domestic Scooter market share



Source: Company, Axis Securities,

Exhibit 5: Trend in Domestic Motorcycle market share

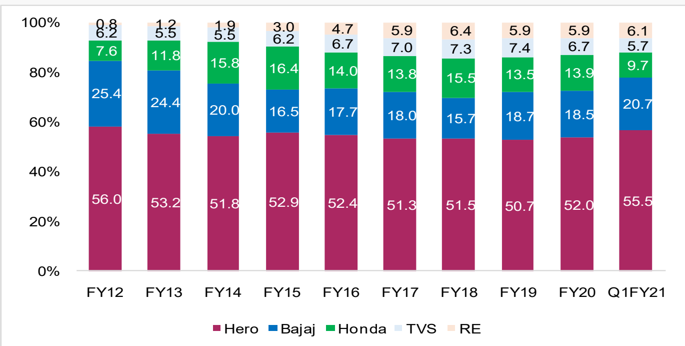
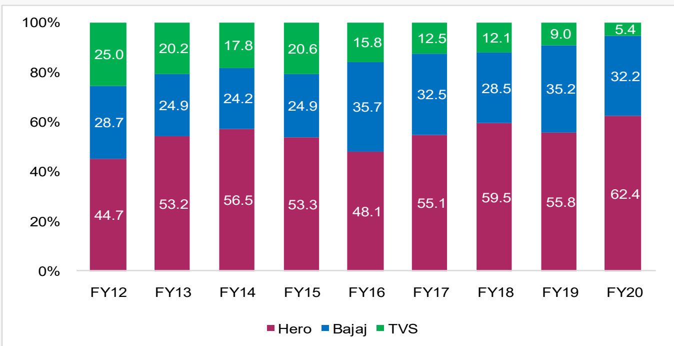


Exhibit 6: Trend in Economy Segment market share



Source: Company, Axis Securities

Exhibit 7: Trend in Executive Segment market share

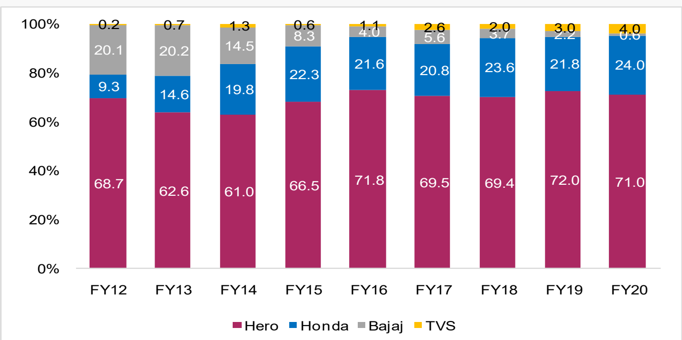
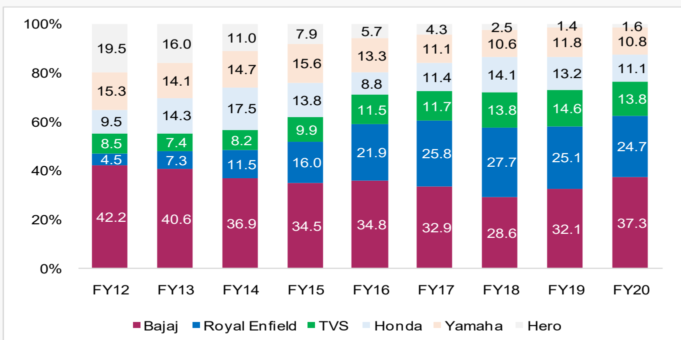


Exhibit 8: Trend in Premium Segment market share



Source: Company, Axis Securities

AXIS SECURITIES

COVID-19 Impact

The auto sector had witnessed one of the worst slowdowns of the decade, and the segment is likely to remain under pressure in the very near term if the outbreak persists, though the month-on-month sales numbers are indicating that the worst is behind. The impact on decline in volumes was visible in Q1FY21 with volume decline ranging between ~70-75% across 2W OEMs. The first quarter forms ~21-25% of yearly volumes. Though the lost sales in Q1FY21 would not be completely recovered, it needs to be seen how soon the the festival led demand brings back the automobile recovery. Anyhow, we expect the industry volumes to fall by ~12% in FY21E, and expect strong recovery of ~18% and ~14% in FY22E and FY23E.

While the steep fall in 2Ws volumes over the last 12 months has created a low base, the economic impact of Covid-19 is expected to keep demand under pressure in the very near-term. However, we have been witnessing incremental growth in the month-on-month demand across OEMs which the companies feel is sustainable going forward and not just due to the pent-up demand. More than the demand side, supply constraints and intermittent lockdowns are impacting the auto sales. Companies almost lost ~20-25% of volumes in the months of July and August to unfulfilled demand on account supply constraints. The things are slowly progressing back to normal with plant utilization levels reaching ~90-95% (still varying day to day depending on the area wise lockdowns). While labour availability issues continue to prevail, import of critical components from China is back to normal (impacted due to geo-political tension and covid-19). However, re-imposition of lockdown in auto clusters (like Aurangabad) is an incremental risk.

Tough times to last longer

Export volumes to come under pressure; weak Rupee may support margins. We forecast auto exports from India to be down ~15-20% in FY21. This is a result of production shutdown (April & half of May) and supply constraints (June to August) in India, impact of COVID-19 restrictions in some of the export markets, impact of fall in oil price on Nigeria and on other oil-exporting nations, and a weak economic environment globally. Auto exports (especially 2Ws, 3Ws) saw high growth in the past 2-3 years and may be due for a down-cycle.

Margins to come under further pressure; fall in global commodities prices may provide some respite. We expect sector margins to further contract in FY21E, due to negative operating leverage, BS-VI related costs increase, Rupee impact on imports and potential increase in discounts. Fall in price of global commodities (steel, aluminium, lead and crude derivatives) may provide partial relief in the short term.

Lessons from previous crisis

In both the situations, the Global Financial Crisis (FY09) and Demonetisation (FY17), the auto sector went through a shock decline period. However, in both cases, the declines were followed by periods of sharp recovery.The improvement in auto markets of China and Korea indicates that the COVID-19 related pain is temporary.

As we have witnessed in our domestic markets, after a significant hit in Q1FY21 volumes, we are seeing a healthy recovery in month-on-month numbers led by tractors and 2W and followed by PVs and CVs. A large part of it can be attributed to the pent-up demand from previous months where everything was shut on account of the lockdowns, but if this demand sustains going forward then, we can see a good traction in auto numbers from second half of the year.

Rural and Semi-Urban areas leading the recovery

Economic situation of rural/ semi urban India remains robust. This is on the back of less severity of virus in those areas and fewer lockdwons. The incremental monthly demand across auto segments has been on the back of strong recovery in rural and semi-urban markets. OEMs are seeing good volumes from Tier-2 and Tier-3 cities as compared to metro cities. We expects urban India to also catch up soon as pace of virus spread slows and lockdown restriction further eases.

Shift from public/shared mobility to personal mobility

It has happened in the past, post SARS, there was a surge in car demand in China. People moved away from public transport, in fear of infection. In India post COVID-19 it is an upside risk to demand. It is unlikely that people commuting on trains, public buses will move to buying cars. 2Ws may be a potential purchase for these buyers, but cars are unlikely to be affordable for these users.There will be a switch in the short term towards owning 2Ws and smaller cars. The thought of social distancing is going to stay for a couple of quarters, before it disappears from the consumers' mind. We should see some usage decline in shared mobility and a growing preference for personal mobility in the medium term.

Probable downward rate revision of GST on 2W

Finance Minister Nirmala Sitharaman recently stated that the GST Council would look into the auto industry's demand for lowering the tax rate on 2W, which are currently being taxed under the highest slab rate of 28 per cent. She mentioned that since 2Ws are neither sin nor luxury products, they do merit a rate revision. A tax cut for two-wheelers can spur demand ahead of the festive season, and at a time when private consumption is sluggish due to the outbreak of coronavirus and the consequent lockdown.

The industry has been demanding for a rate reduction for quite some time, especially for the segment below 150cc. Last year, the country's largest two-wheeler maker Hero MotoCorp had urged the government to consider a phase-wise reduction in GST on the segment, starting with bringing bikes up to 150 cc into the 18 per cent slab but the Council has still not taken up this issue. 2Ws have become a necessity as a mode for transportaion, especially for the middle income households in India on the back of safety concerns and shift in preference for personal mobility over public transport in the wake of rising Covid-19 cases. If the proposal does go through, then it will be a positive development for the 2W industry, especially for Hero Motocorp and Bajaj Auto as they command highest market share in entry level motorcycles. (We believe in the initial phase, rate revision will be applicable to lower CC bikes (less than 150cc) and then gradually move towards higher segment bikes.)

However, the government will also have to take some revenue hit in case states agree to come on board for a rate cut during the council meeting. Also the current juncture does not appear to be condusive for further rate cuts as GST revenues are way below targets. As of now, the above rate cut has just been proposed to be put up before the GST council and nothing is conclusive as of now, we will have to wait and watch how the situation pans out going ahead.

Impact of BS-VI norms and other Regulatory Changes

Adoption of BS-VI emission norms

The Indian auto industry has adopted BS-VI emission norms starting April 2020, which has resulted in large cost increases for 2Ws. The BS-VI adoption not just impacts the overall demand but also poses the risk of value migration and change in competitive positioning of OEMs.

For achieving the eligibility criteria set under BS-VI emission regulations, motorcycle manufacturers have employed certain equipment such as electronic fuel-injection (EFI, in place of carburetors) and larger catalytic converters.

The technical changes in the motorcycles have also resulted in the need to upgrade to BSVI fuel, which is different than the gasoline suitable for BS-IV power plants.

We have seen that the models launched with EFI and other BS-VI updates have taken a price increase of ~12-15% on the ex-showroom price. Models that already came with EFI saw a price increase of ~2-3%. Along with the BS-VI update, OEMs have refreshed and updated features in the models, and hence, some of the price increase pertains to the feature enhancements.

Mandatory CBS/ABS

Effective April 1, 2018, all new 2W models above 125cc are equipped with an anti-lock braking system (ABS), while 2W less than 125cc have installed either ABS or the combined brake system (CBS). The above regulations for existing models came into effect from Apr 1, 2019.

The prices of economy and executive 2W increased by ~Rs. 500-1000 post installation of CBS, while at the higher end of the premium bikes, the cost increase was estimated to be as high as Rs.4,000-9,000. However, price impact was not material in scooters as models were already equipped with CBS.

Mandatory 5 Year Third Party insurance

W.e.f. Sep 2018, third party insurance has been made mandatory for 2W for a minimum period of 5 years, compared to 1 year earlier. A premium hike in March 2020 has further increased upfront insurance costs, resulting in insurance costs being ~5-6% of on-road price currently compared to ~1-2% pre-Sep 18.

The 2W industry is facing the brunt of new regulations as the combined effect of new insurance, braking and emission norms has resulted in a massive ~15-30% jump in vehicle prices in just one and a half year. Given the hike in regulatory costs over the last 1.5 years and transition to BS-VI coupled with the current impact of COVID-19 on volumes, we expect pressure on EBIDTA margins in FY21E across the industry.While few OEMs have completely passed on the BS-VI costs, some are yet to pass on and we expect the same to be complete by end of FY21 in a staggered manner.

BS-VI Price Changes

OEM	Model	BS-IV Price (Rs)	BS-VI Price (Rs)	Diff (Rs)	% Diff
Hero Motocorp	Hero HF Deluxe	48,575	55,925	7,350	15%
	Hero Spledor iSmart	57,430	64,900	7,470	13%
	Hero Passion Pro	58,200	64,990	6,790	12%
Honda	Honda SP125	63,857	72,900	9,043	14%
	Honda Activa (6G)	55,934	63,912	7,978	14%
	Honda Activa 125 Drum Alloy	61,858	70,990	9,132	15%
	CT 110 (Alloy, ES)	44,352	50,852	6,500	15%
Bajaj Auto	Bajaj Pulsar 150	75,200	85,536	10,336	14%
	KTM 200 Duke	162,253	172,749	10,496	6%
TVS Motors	TVS Apache RTR 160 4V	92,306	99,950	7,644	8%
	TVS Apache RTR 200 4V	111,845	124,000	12,155	11%
	TVS Jupiter Classic SBT	59,990	67,911	7,921	13%
	TVS XL 100	39,544	43,044	3,500	9%
Eicher Motors	RE Classic 350	153,000	165,000	12,000	8%
Yamaha	Yamaha Fascino	56,023	66,430	10,407	19%
	Yamaha FZ	96,680	99,200	2,520	3%
	Yamaha FZS	98,600	101,200	2,600	3%
Suzuki Motors	Suzuki Access 125	58,323	64,800	6,477	11%

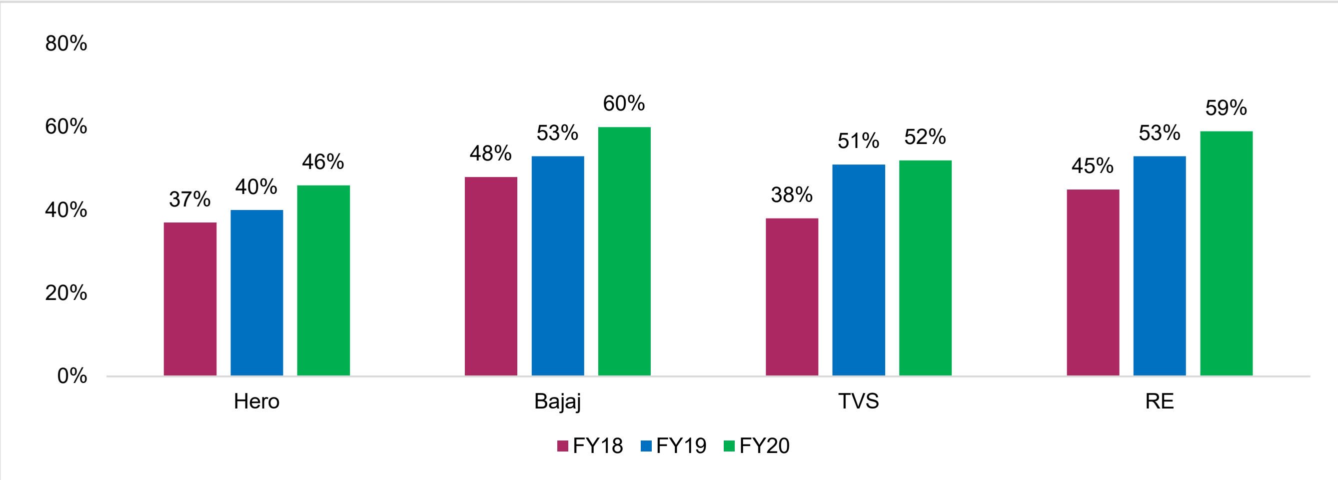
Source: Company, Axis Securities

Improving Financing Penetration over the years

Organized financing penetration has increased from ~23% in FY11 to ~46% in FY20. Ease of access, low down payments, and increased competition (leading to softening rates) have aided penetration. Rural states like UP, Bihar, MP have high potential for higher financing penetration. Industry commentary suggests that financing penetration in metros and top cities is estimated at ~55-60%.

Finance availability will be the key demand driver once normalcy resumes. Given that pre-COVID-19 it was already constrained, post COVID-19 financers could further tighten norms as pressure on incomes persists and vehicle prices stay elevated (BSVI transition). 2W prices have escalated 13-30% and PV 9-22% due to regulatory cost pressure (average price hike over the past 10 years was ~2%), leading to a severe and never before seen spike in cost of ownership. During every previous slowdown cycle, government support–direct (tax cut) or indirect (pay commissions)–has supported demand. However, that support does not seem forthcoming in the current cycle, further denting consumers' ability to purchase vehicles. We note that, in this regard, India is an exception. Globally,governments have come up with various schemes aimed at direct and indirect benefits for the sector. We believe that finance availablity will be the key demand driver going ahead amidst lower income, job losses and liquidity constraints.

Exhibit 9: Financing Penetration



Source: Company, Axis Securities

Premium Bikes better placed for Long Term

We expect weakness across 2W segments in FY21 but believe that premium bikes are better placed in the long-term. India's 2W penetration has already reached ~53% of households, and a maturing industry should see demand shifting to premium products. The share of premium segment has been increasing gradually over the years from ~15% in FY14 to ~22.7% in FY20. It reached ~23.7% in FY19 but lost 100 basis points in FY20 on account of general slowdown in the economy and shift towards entry level bikes.

Hero Motocorp is eyeing to gain back its lost market share in the scooters and premium motorcycle segment. The company is also going to focus more on its export strategy going forward. Eicher Motors is already a market leader (~80% market share) in more than 200cc segment.TVS Motors & Bajaj Auto are also coming up with new models in the premium segment and already have strong market share in the 2-wheeler exports market. We believe that going forward, premium segment along with exports will drive the next leg of growth in 2 wheeler industry over the long term.

Electric Vehicles

With the intention to move away from Internal Combustion Engines (ICE), the government is focused on increasing number of electric vehicles in India. Under Faster Adoption and Manufacturing of Hybrid and Electric vehicles in India (FAME) I and the recently launched FAME-II norms, the government is offering incentives for electric vehicles. Many listed 2W OEMs have adapted to the changing landscape like (1) E-scooters from the stables of BJAUT (Chetak) and TVS (iQube), (2) Making strategic investments in electric vehicle start-ups like Hero MotoCorp (in Ather Energy).

The Ministry of Heavy Industry and Public Enterprise, through a notification on March 28, 2019, laid out the eligibility criteria for electric buses, PVs, 3Ws and 2Ws to avail the FAME II incentives. The criteria is based on:- (1) 40 kmph minimum top speed, (2) 80 km range, (3) Minimum acceleration of 0.65m/s, (4) Higher number of charging cycles, (5) 50% localization.

FAME II scheme aims to encourage faster adoption of electric and hybrid vehicles by offering upfront incentive on EV purchase and establish charging infrastructure.FAME II scheme will be implemented over a period of three years (FY20-22). The capital outlay for the scheme increased from Rs.8.95bn in FAME I(FY17-19) to Rs. 100bn with focus on electric and hybrid vehicles and setting up charging infrastructure (Rs. 10bn for setting up over 2700 charging stations in Metro and other key smart cities).

FAME II aims to increase commercial use of electric vehicle, presence across three-wheeler (e-rickshaws) and passenger vehicles while providing incentive for two-wheeler personal use.

- 2W – Bajaj, Hero, TVS and Yamaha have already announced the electric two wheelers to be launched in CY20 to capitalize on growing opportunity. The pricing is expected to be under Rs. 150,000 to be eligible for FAME II incentive (estimated to be greater than 13% of cost price). Furthermore, startups such as Ather, Ampere, Ultraviolette, Tork, and Revolt have announced launch of FAME II compliant new models to capitalize on favorable incentives.
- 3W– (Delhi's e-rickshaws population is estimated at 70,000)
- Buses - State governments like Delhi, Maharashtra, Karnataka, Tamil Nadu have placed orders for electric buses under FAME-II. Indian government has approved addition of 5,500 electric buses for 64 cities). Delhi government intends to deploy 25% battery operated among all new public transport by 2024.

Key challenges in FAME II for 2W

High eligibility criteria for 2W Incentives :- FAME-II eligibility for 2W include 40 kmph minimum top speed, 80 km range, minimum acceleration (0.65m/s) and higher number of charging cycles which was not available in over 95% of models under FAME-I. Furthermore, 50 per cent localisation in manufacturing is also expected to be a key challenge.

Reduced incentive compared to FAME-I :- FAME-I incentives ranged from Rs. 17,000-Rs.22,000 while FAME-II has linked the demand incentive to the size of the battery, with the government providing Rs 10,000 per kWh of battery used for a two-wheeler. As the average size of a lithium ion battery in electric scooters sold during FAME-I was ~1.5kWh (average subsidy of about Rs 15,000 per vehicle), it reduced the average subsidy per vehicle by Rs 2,000 to Rs 7,000

Ambiguity on incentive for battery swapping technology:- Vehicles running on battery swapping technology have been kept of out of the ambit of FAME2. Industry chamber and OEMs have requested for inclusion.

The stringent compliance norms have resulted in slump in electric vehicle demand (6,500 in 9MFY20 vs 75,000 in FY19)

Negatives Priced In - Strong recovery & diversified product portfolio to drive volumes

Bajaj Auto is working towards its goal of achieving a market share of ~24% in the domestic 2W market. Its current market share stands at ~19% in the motorcycle segment as of Q1FY21. Management expects the market share gains to be driven by innovative product launches. Two-wheeler demand in August is seen coming back to almost pre-covid-19 levels. However, the company believes the demand surge seen is largely due to pent-up demand. Company witnessed no conclusive evidence of downtrading across its entire portfolio. The quality of demand has not depreciated. The Premium portfolio of the company is doing well. Pulsar's share in mix was ~50% in Q1FY21 versus 40% in Q4FY20. Pulsar single and twin disc, both are doing well. The most expensive Pulsar variant is the top selling one. Despite the weak sentiment in FY20, we expect the premiumization trend to continue in the long term. Bajaj Auto is well positioned with its portfolio of Husqvarna, KTM, Dominar, Pulsar and the planned Triumph launch.

The inventory levels have come down significantly to 30-35 days from normal 6 weeks. Company is working toensure supply chain is in place before the festive season starts. The inventory buildup is expected to resume in the comng weeks so that the company has enough dealer stock for the festive season.Company expects to reach pre-covid levels same as last year during the Dusshera/ Diwali period; however we feel it is unlikely to surpass the peak 2018 sales. The opening up of businesses and preference for personal mobility is expected to improve the consumer sentiment.

Thedemand patterns in international markets (for 2Ws) are very similarto the domestic business. Exchange rates (across their top 10 markets) have remainedrelatively stable despite unfavourable oil prices. Over the long term, we expect mix to be moreinclined towards exports versus domestic sales. The 3 Wheeler business has been impacted much more strongly than motorcycles anddemand recovery thereof is also much slower. Till complete normalcy resumes, 3Wowners will see much less business. Demand has only reached 35-40% of previous levels and is likely to be subdued due to lack of traffic and public mobilityon road. On exports of 3W, wait is likely to be longer.

Bajaj Auto brought its historic brand back to life with the launch of thenext-generation Chetak in an electric avatar. The new Chetak is made at state-of-the-art dust-free and temperature-controlled facility at Chakan to exactingstandards using the best materials and cutting-edge robotic technology.Chetak saw good demand with couple of thousand bookings in the firstfew days. Currently, Chetak is only available in Pune and Bangalore.

Recently, Finance minister Nirmala Sitharaman said the Goods and Services Tax (GST) Council will take up an industry proposal to reduce the tax on two-wheelers as it is neither a luxury nor a demerit good. Currently two wheelers attract 28% GST which is at par with the tax rate on sin goods and luxury goods. 2Ws have become a basic necessity for transportation especially for middle-income households in India in the post Covid-19 world. There is good chance that the proposal might be taken up for consideration in the coming months. If the proposal does go through, then we expect the rate cut to initially start with lower cc bikes (upto 150 cc) followed by higher cc segment. This will be a positive for Bajaj Auto as it has close to ~32% market share in the economy segment.

Outlook and Valuation

We remain positive on the long term growth prospects of the Company owing to 1) strong financial profile of the company, 2) Diversified portfolio mix (domestic 2W, 3W, EV and exports) 3) Innovation in products with a dual focus on entry and premium segment 4) Its ability to sustain profitability despite weak volumes/ exports 4) Partnerships with global MNCs and new product launches. We have raised our EPS estimates by ~18%/13% in FY21E/FY22E and have introduced FY23E estimates. Bajaj Auto is currently trading at 15x FY23E PE multiple.
We upgrade our rating from HOLD to BUY with a Target Price of Rs 3,300 (earlier 2,850) valuing it at 16x (earlier 17x) FY23E PE ratio (including Rs 120/share for its stake in KTM) which gives an upside of ~8% from current levels.

Key Financials (Standalone)

(Rs. Cr)	FY20A	FY21E	FY22E	FY23E
Revenue Growth	-1.4	-6.1	18.8	10.8
EBITDA Margin	17.0	17.0	17.2	17.2
Net Profit Margin	17.0	16.2	15.6	15.5
ROCE (%)	21.7	20.1	21.9	22.7
ROE (%)	22.2	20.5	22.4	23.1
EPS(Rs)	176.2	157.6	179.7	198.7
P/E (x)	17.3	19.3	16.9	15.3
P/ BV (x)	4.4	4.3	4.0	3.4

Source: Company, Axis Research

	CMP as of Aug 27, 2020)
CMP (Rs)	3,045
Upside /Downside (%)	8.4%
High/Low (Rs)	3,315 /1793
Market cap (Cr)	88,112
Avg. daily vol. (6m) Shrs.	918,416
No. of shares (Cr)	28.94

Shareholding (%)

	Dec-19	Mar-20	Jun-20
Promoter	53.52	53.66	53.69
FIIs	13.88	13.94	13.71
MFs / UTI	2.85	3.05	3.2
Banks /FIs	0.07	5.72	0.93
Others	42.68	37.63	43.47

Financial & Valuations

Y/E Mar (Rs. Cr)	FY21E	FY22E	FY23E
Revenue Growth	-6.1	18.8	10.8
EBITDA Margin	17.0	17.2	17.2
Net Profit Margin	16.2	15.6	15.5
ROCE (%)	20.1	21.9	22.7
ROE (%)	20.5	22.4	23.1
EPS(Rs)	157.6	179.7	198.7
P/E (x)	19.3	16.9	15.3
P/ BV (x)	4.3	4.0	3.4

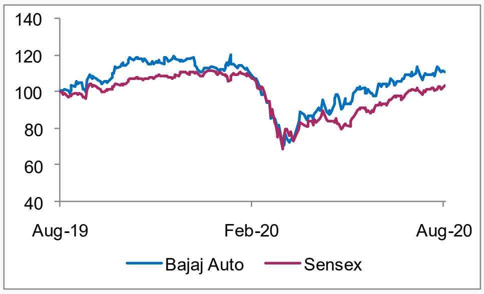
Change in Estimates

Y/E Mar	FY21E	FY22E
Sales	16.6	12.6
EBITDA	25.9	18.0
PAT	17.7	12.9

Axis vs Consensus

EPS Estimates	2021E	2022E	2023E
Axis	157.6	179.7	198.7
Consensus	138.4	181.4	211.9
Mean Consensus TP (12M)			**3,052**

Relative performance



Source: Capitaline, Axis Securities

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Financials (Standalone)

Profit & Loss

(Rs Cr)

Y/E March	FY20A	FY21E	FY22E	FY23E
Net revenues	**29,919**	**28,083**	**33,364**	**36,977**
Operating expenses	24,822	23,315	27,610	30,635
EBIDTA	**5,096**	**4,768**	**5,754**	**6,342**
EBIDTA margin (%)	**17.0**	**17.0**	**17.2**	**17.2**
Other income	1734	1558	1497	1685
Interest	3.2	3.8	3.8	3.8
Depreciation	246.4	254.3	300.9	340.3
Profit Before Tax	6,580	6,068	6,946	7,683
Tax	1,480	1,509	1,748	1,934
Reported Net Profit	**5,100**	**4,559**	**5,198**	**5,749**
Net Margin (%)	17.0	16.2	15.6	15.5
Adjusted Net Profit	**5,100**	**4,559**	**5,198**	**5,749**

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY20A	FY21E	FY22E	FY23E
Equity capital	289.37	289.37	289.37	289.37
Reserves & surplus	19,636	20,358	21,718	25,897
Shareholders' funds	**19,925**	**20,647**	**22,008**	**26,187**
Total Loans	126	126	126	126
Deferred tax liability	346	346	346	346
Total Liabilities and Equity	**20,398**	**21,120**	**22,480**	**26,659**
Gross block	4078	4690	5340	6005
Depreciation	2419	2674	2974	3315
Net block	1,659	2,017	2,366	2,690
Capital WIP	47	85	85	102
Investments	18250	18550	18850	18850
Inventory	1,064	894	1,059	1,175
Debtors	1,725	1,924	2,285	608
Cash & Bank Bal	308	746	985	3633
Loans & Advances	1,721	1,978	1,997	3,992
Current Assets	**4,818**	**5,542**	**6,327**	**9,408**
Sundry Creditors	3,454	4,152	4,226	3,470
Other Current Liability	921	921	921	921
Current Liability& Provisions	4,375	5,073	5,147	4,391
Net current assets	443	469	1,180	5,017
Total Assets	**20,398**	**21,120**	**22,480**	**26,659**

Source: Company, Axis Securities

Cash Flow (Rs Cr)

Y/E March	FY20A	FY21E	FY22E	FY23E
EBIT	4,850	4,514	5,453	6,002
Other Income	1,734	1,558	1,497	1,685
Depreciation & Amortization	246	254	301	340
Interest Paid (-)	-3	-4	-4	-4
Tax paid (-)	-1480	-1509	-1748	-1934
Extra Ord Income	0	0	0	0
Operating Cash Flow	**5,346**	**4,813**	**5,499**	**6,089**
Change in Working Capital	419	411	(472)	(1,190)
Cash Flow from Operations	**5,766**	**5,225**	**5,027**	**4,900**
Capex	-195	-650	-650	-683
Strategic investments	-11	0	0	0
Non-Strategic Investments	976	-300	-300	0
Cash Flow from Investing	**770**	**-950**	**-950**	**-683**
Change in borrowing	1	0	0	0
Others	(2,965)	0	(0)	(0)
Dividends paid (-)	(4,186)	(3,837)	(3,837)	(1,570)
Cash Flow from Financial Activities	**(7,150)**	**(3,837)**	**(3,837)**	**(1,570)**
Change in Cash	-615	437	240	2647
Opening Cash	923	308	746	985
Closing Cash	308	746	985	3633

Source: Company, Axis Securities

Ratio Analysis (%)

Y/E March	FY20A	FY21E	FY22E	FY23E
Revenue Growth	-1.4	-6.1	18.8	10.8
EBITDA Margin	17.0	17.0	17.2	17.2
Net Profit Margin	17.0	16.2	15.6	15.5
ROCE (%)	21.7	20.1	21.9	22.7
ROE (%)	22.2	20.5	22.4	23.1
EPS (Rs)	176.2	157.6	179.7	198.7
P/E (x)	17.3	19.3	16.9	15.3
P / BV (x)	4.4	4.3	4.0	3.4
EV / EBITDA (x)	17.3	18.3	15.2	13.3
Fixed Asset Turnover Ratio (x)	17.5	13.4	13.6	13.2
Debt Equity (x)	0.0	0.0	0.0	0.0
EV / Sales	2.9	3.1	2.6	2.3

Source: Company, Axis Securities

About the analyst

Analyst: Darshan Gangar

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Sector: Auto

Analyst Bio: Darshan Gangar is Chartered Accountant with over a year of research experience in the Mid Cap space and Auto sector.

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