

# Automobiles

Refer to important disclosures at the end of this report

## Healthy sales performance aided by inventory restocking

Growth in Automotive wholesales in Jul'17 was robust across segments (2W: ~13% yoy, PV: ~16% yoy, CV: ~10% yoy and Tractors: ~13% yoy), supported by inventory restocking by dealers and price cuts. Post inventory destocking in Jun'17, dealers rebuilt inventory in Jul'17 under the new GST regime in view of the positive outlook for the upcoming festive season. Most OEMs, including Hero MotoCorp, Maruti Suzuki, Mahindra & Mahindra (Auto), Ashok Leyland and Tata Motors logged better-than-expected numbers. Going forward, we believe that FY18 would witness double-digit growth in PVs, 2Ws and Tractors, led by strong rural demand, new launches and falling cost of ownership. Our top picks are Hero MotoCorp, M&M, Maruti Suzuki and Tata Motors.

- **PV sales hit a new high in Jul'17 (up ~16% yoy) - outpacing previous high of Mar'17. Within PVs, UVs continued to outpace PCs/MPVs.** Models with healthy order book such as Maruti Suzuki *Dzire/Baleno/Brezza*, Tata *Tiago/Tigor/Hexa* and Honda *WRV/City* etc supported PV sales. Domestic sales volume increased by 43% yoy, 22% yoy, 21% yoy, 10% yoy and 4% yoy for Toyota, Maruti Suzuki, M&M, Tata Motors and Hyundai, respectively.
- **2W industry clocks bumper sales supported by strong growth in both Motorcycles and Scooters.** Total volume increased by 20% yoy, 17% yoy and 10% yoy for Honda, Hero MotoCorp and TVS Motor, respectively. In comparison, Bajaj Auto witnessed a fall of 7% yoy. Sales for TVS Motor were supported by a growth of 36% yoy and 15% yoy in Scooters and Motorcycles, respectively. Meanwhile, sales for Bajaj Auto remained under pressure due to a fall of 5% yoy and 10% yoy in domestic and export segments, respectively.
- **CVs register double-digit growth, backed by healthy growth in both LCVs and M&HCVs. Supply constraints eased for fuel injector systems, aided by higher production of M&HCVs.** Tata Motors' total CV sales increased by 15% yoy to 27,842 units (MHCV +10% yoy to 8,640 units). In comparison, Ashok Leyland's total sales climbed 14% yoy to 11,981 units, led by a growth of 10% yoy and 28% yoy in M&HCVs and LCVs, respectively. Meanwhile, VECV sales remained flat at 4,359 units.
- **Tractor sales were upbeat**, with Escorts and M&M domestic tractor sales increasing by 33% yoy and 8% yoy, respectively.

Our top picks are **Hero MotoCorp, M&M, Maruti Suzuki and Tata Motors.**

<b>Ashok Leyland</b>	BUY
CMP	Target Price
111	117
<b>Bajaj Auto</b>	HOLD
CMP	Target Price
2,823	2,850
<b>Eicher Motors</b>	ACCUMULATE
CMP	Target Price
31,505	28,000
<b>Hero MotoCorp</b>	BUY
CMP	Target Price
3,728	4,230
<b>Mahindra &amp; Mahindra</b>	ACCUMULATE
CMP	Target Price
1,429	1,450
<b>Maruti Suzuki India</b>	BUY
CMP	Target Price
7,856	8,250
<b>Tata Motors</b>	BUY
CMP	Target Price
447	535

### Auto Sales Snapshot

Company	Jul-17	Jul-16	YoY (%)	Jun-17	MoM (%)	FY18YTD	FY17YTD	YTD (%)
<b>2 Wheelers</b>								
Bajaj (2W)	2,65,182	2,85,527	(7.1)	2,04,667	29.6	10,40,896	11,58,070	(10.1)
HMCL	6,23,269	5,32,113	17.1	6,24,185	(0.1)	24,72,644	22,77,502	8.6
HMSI	5,44,508	4,53,844	20.0	4,44,713	22.4	21,05,185	17,48,459	20.4
TVS	2,63,336	2,40,042	9.7	2,68,638	(2.0)	10,48,407	9,40,948	11.4
RE	64,459	53,378	20.8	63,160	2.1	2,48,457	2,00,861	23.7
<b>4 Wheelers</b>								
MSIL	1,54,001	1,25,778	22.4	93,263	65.1	5,22,432	4,48,118	16.6
Hyundai	43,007	41,201	4.4	42,007	2.4	1,67,334	1,64,710	1.6
MM (PV)	20,962	17,356	20.8	16,170	29.6	76,747	76,716	0.0
Toyota	17,750	12,404	43.1	10,914	62.6	43,583	47,049	(7.4)
<b>CV's</b>								
AL	11,981	10,492	14.2	9,071	32.1	40,465	41,655	(2.9)
VECV	4,359	4,354	0.1	3,921	11.2	15,942	20,425	(21.9)
<b>Tractors</b>								
MM (D)	17,682	16,452	7.5	31,522	(43.9)	98,860	88,101	12.2
Escorts (D)	5,275	3,953	33.4	5,669	(7.0)	22,474	20,143	11.6

Source: Company, Emkay Research

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ACCUMULATE	Expected total return (%) (Stock price appreciation and dividend yield) of over 10% within the next 12-18 months.
HOLD	Expected total return (%) (Stock price appreciation and dividend yield) of upto 10% within the next 12-18 months.
REDUCE	Expected total return (%) (Stock price depreciation) of upto (-) 10% within the next 12-18 months.
SELL	The stock is believed to underperform the broad market indices or its related universe within the next 12-18 months.

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