Auto-Roundup
July 2020

LKP

Sequential outperformance; tractors grow yoy, while fall sequentially on expected lines

In June, auto sales witnessed a boom on a sequential basis, as May too witnessed lockdown in certain regions. This was also a result of opening up of markets, plants, dealerships etc under the Unlock 1.0 regime. Wider opening of dealerships was witnessed in July as restrictions were slackened and consumers started stepping out of their houses. Offices started functioning at a higher percentage of work-force than earlier months, due to which personal mobility gained preference. This led to continuity of strong sales growth in July as well. Ultra low levels of inventories at dealers' ends too led to higher wholesale volumes. According to various managements of OEMs, the retail demand has reached 85-90% of pre-COVID levels and is expected to move up positively hereon. Manufacturing facilities are increasing their operating capacity utilization rates, as retail demand becomes robust. We expect the trend of mom growth to continue as time progresses and dust over the pandemic settles down. Although there is an uncertainty about it, as the Unlock process goes ahead, we should witness a steady traction in auto sales.

On yoy basis after May sales nosedived by more than 80%, in June this fall softened as we saw yoy declines in the range of 21-60%. In July, this fall further narrowed as we observed certain companies like Hero, MSIL and TVS posting single digit drops due to recovery in rural markets and liking for personal mobility, while Bajaj Auto and M&M's auto businesses dropped more than 30%. Bajaj Auto's drop was led by exports, which plummeted by 45% due to weakness in Africa and South Asian markets, while 3Ws segment is having a tough time as consumers are moving away from shared mobility in the pandemic. M&M's auto business is more of diesel led and high end SUVs, where demand is seeing a fall due to its high ticket size considering job losses and salary cuts of the clientele.

Tractor sales have been buoyant ever since the lockdown was lifted up as dealerships opened up in May. Expectations of good monsoons support from the government, shorter lockdown period for tractor dealerships, consideration of tractors as essential services and minimum impact of Covid-19 on the rural markets (as of now) led to this performance. We expect the robust yoy trend in tractors to continue. Tractors witnessed a sequential drop for both M&M (30%) and Escorts (51%) on expected lines. This was due to pent up demand led spurt in June just after the Unlock 1.0 and seasonal weakness in July. According to our dealer checks, (Tractors Dealer Checks – Q2FY 20-21) August as well is expected to show a sequential dip due to seasonality. However, September onwards due to start of festive season and Rabi crop sowing, we may see a good sequential rise. On yoy basis, both M&M and Escorts posted healthy growth of 27% and 9.5% respectively.

	Jul-20	Jun-20	% MoM	Jul-19	% YoY
Hero Motocorp	**514,509**	**450,744**	**14.1%**	**535,810**	**-4.0%**
Bajaj Auto	**255,832**	**278,097**	**-8.0%**	**381,530**	**-32.9%**
TVS	**252,744**	**198,387**	**27.4%**	**279,465**	**-9.6%**
Maruti	**108,064**	**57,428**	**88.2%**	**109,264**	**-1.1%**
M&M	**51,080**	**55,902**	**-8.6%**	**60,134**	**-15.1%**
Auto	*25,678*	*19,358*	*32.6%*	*40,142*	*-36.0%*
Tractors	*25,402*	*36,544*	*-30.5%*	*19,992*	*27.1%*
Ashok Leyland	**4,775**	**2,394**	**99.5%**	**6,721**	**-29.0%**
Escorts	**5,322**	**10,851**	**-51.0%**	**4,860**	**9.5%**

We believe the pent up demand along intrinsic demand of the sector and revival of economy may lead to bouncing back of auto markets by festive season. This may lead to a better H2 FY21 and a stronger FY 22. On stocks, Hero Motocorp (market leader and king in the rural markets), Bajaj Auto (#1 in 2W exports markets) and Maruti Suzuki(PV market leader) will be the winners, as we believe that they being market leaders with widespread distribution network, will be best placed to increase their market shares and gain from the current situation. We also believe that M&M with its thrust on rural markets through its leadership in tractors business is one of the best investment stories. On the CVs business, we believe this sector to be the last to revive as it is plagued by several issues such as weak macros, driver unavailability, tepid industry output, lack of clarity on scrappage norms and price hikes due to BS 6. However, within CVs, only LCVs are bucking the trend, with demand for essential goods and e-com businesses gaining traction during lockdown. 3Ws passenger segment will show a delayed recovery due to preference for personal mobility over shared, while cargo segment will show a faster revival.

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