

## Strong month!

August witnessed a super performance from all the auto counters except CVs and 3Ws. The base month of August 2019 was weak as from that month the economic slowdown gained pace. Also there were a few product launches this month which gained good traction for eg. Xtreme 160R from Hero's stable. Inventory pile up also led to this growth as OEMs are gearing up for the festive season. Production hit the 100% mark as there were fewer localized lockdowns and dealerships too functioned at full capacity. Further unlocking of the economy and improvement in sentiments led to a healthy broad based mom as well as yoy growth across most of the auto segments. Also pent up demand initiated in May continued through August as well. Rural markets contributed to this growth handsomely, as the pandemic had not penetrated those markets as compared to urban markets. Additionally, due to above normal monsoons, the farm income has seen a meaningful growth. According to various managements of OEMs, the retail demand has reached >90% of pre-COVID levels and is expected to move up positively hereon. We expect the trend of mom growth to continue as time progresses and dust over the pandemic settles down. Unless the COVID cases flair up and there is another round of nationalized/localized lockdowns, the Unlock process will move ahead and we should witness a steady traction in auto sales.

Speaking segment wise, the PV sales, backed by the personal mobility theme and low base, posted strong sales performance as the market leader MSIL posted 17.5% yoy growth, out of which the small car segment posted 91% growth. This is due to reduction in affordability of consumers led by job losses and salary reduction in the lockdown. Also this can be attributed to the resilience in rural markets. Similar story is for 2W, wherein the market leader Hero posted 7.5% growth yoy led by the launch of Xtreme 160R in addition to the points mentioned above for MSIL. Bajaj Auto's 8.5% yoy drop was led by exports (mainly Latin American countries like Colombia, Chile, Peru etc where the pandemic is going strong). The second reason for this decline is the 3Ws segment, which 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 slightly lesser impact of Covid-19 on the rural markets led to this performance. We expect the robust yoy trend in tractors to continue. Tractors witnessed a second consecutive month of sequential drop 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 and August. This we had mentioned in our dealer checks report, ([Automotive Dealer Checks - Q2FY 2020-21](#)) that 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 65% and 80% respectively.

Based on the factors mentioned above, we expect 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 (particularly the M&HCVs) 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. We saw Ashok Leyland too witnessing a similar trend, as in August their M&HCV sales plummeted by 51%, while contrastingly the LCVs dropped a bit by just 4%. 3Ws passenger segment will show a delayed recovery due to preference for personal mobility over shared, while cargo segment will show a faster revival.

	Aug-20	Jul-20	% mom	Aug-19	% yoy
<b>Hero Motocorp</b>	<b>584,456</b>	<b>514,509</b>	<b>13.6%</b>	<b>543,406</b>	<b>7.6%</b>
<b>Bajaj Auto</b>	<b>356,199</b>	<b>255,832</b>	<b>39.2%</b>	<b>390,026</b>	<b>-8.7%</b>
<b>TVS</b>	<b>287,398</b>	<b>252,744</b>	<b>13.7%</b>	<b>290,455</b>	<b>-1.1%</b>
<b>Maruti</b>	<b>124,624</b>	<b>108,064</b>	<b>15.3%</b>	<b>106,413</b>	<b>17.1%</b>
<b>M&amp;M</b>	<b>54,884</b>	<b>51,080</b>	<b>7.4%</b>	<b>50,902</b>	<b>7.8%</b>
<i>Auto</i>	<i>30,426</i>	<i>25,678</i>	<i>18.5%</i>	<i>36,085</i>	<i>-15.7%</i>
<i>Tractors</i>	<i>24,458</i>	<i>25,402</i>	<i>-3.7%</i>	<i>14,817</i>	<i>65.1%</i>
<b>Ashok Leyland</b>	<b>6,325</b>	<b>4,775</b>	<b>32.5%</b>	<b>9,230</b>	<b>-31.5%</b>
<b>Escorts</b>	<b>7,268</b>	<b>5,322</b>	<b>36.6%</b>	<b>4,035</b>	<b>80.1%</b>

**DISCLAIMERS AND DISCLOSURES**

LKP Sec. Ltd. (CIN-L67120MH1994PLC080039, www.lkpsec.com) and its affiliates are a full-fledged, brokerage and financing group. LKP was established in 1992 and is one of India's leading brokerage and distribution house. LKP is a corporate trading member of Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited (NSE), MCX Stock Exchange Limited (MCX-SX). LKP along with its subsidiaries offers the most comprehensive avenues for investments and is engaged in the businesses including stock broking (Institutional and retail), merchant banking, commodity broking, depository participant, insurance broking and services rendered in connection with distribution of primary market issues and financial products like mutual funds etc.

LKP hereby declares that it has not defaulted with any stock exchange nor its activities were suspended by any stock exchange with whom it is registered in last five years. However, SEBI and Stock Exchanges have conducted the routine inspection and based on their observations have issued advice letters or levied minor penalty on LKP for certain operational deviations in ordinary/routine course of business. LKP has not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has its certificate of registration been cancelled by SEBI at any point of time.

LKP offers research services to clients. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Other disclosures by LKP and its Research Analyst under SEBI (Research Analyst) Regulations, 2014 with reference to the subject company(s) covered in this report:-

Research Analyst or his/her relative's financial interest in the subject company. (NO)

LKP or its associates may have financial interest in the subject company.

LKP or its associates and Research Analyst or his/her relative's does not have any material conflict of interest in the subject company. The research Analyst or research entity (LKP) has not been engaged in market making activity for the subject company.

LKP or its associates may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report.

Research Analyst or his/her relatives have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report: (NO)

LKP or its associates may have received any compensation including for investment banking or merchant banking or brokerage services from the subject company in the past 12 months.

LKP or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.

LKP or its associates may have received any compensation or other benefits from the Subject Company or third party in connection with the research report.

Subject Company may have been client of LKP or its associates during twelve months preceding the date of distribution of the research report and LKP may have co-managed public offering of securities for the subject company in the past twelve months.

Research Analyst has served as officer, director or employee of the subject company: (NO)

LKP and/or its affiliates may seek investment banking or other business from the company or companies that are the subject of this material. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that may be inconsistent with the recommendations expressed herein.

In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest including but not limited to those stated herein. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject LKP or its group companies to any registration or licensing requirement within such jurisdiction. Specifically, this document does not constitute an offer to or solicitation to any U.S. person for the purchase or sale of any financial instrument or as an official confirmation of any transaction to any U.S. person.

Unless otherwise stated, this message should not be construed as official confirmation of any transaction. No part of this document may be distributed in Canada or used by private customers in United Kingdom.

All trademarks, service marks and logos used in this report are trademarks or registered trademarks of LKP or its Group Companies. The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read "Risk Disclosure Document for Capital Market and Derivatives Segments" as prescribed by Securities and Exchange Board of India before investing in Indian Securities Market. In so far as this report includes current or historic information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

All material presented in this report, unless specifically indicated otherwise, is under copyright to LKP. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of LKP