Strong operational show to drive Q2 for auto firms

Easing chip supply, demand for premium models and price hikes at play

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A strong operational performance, which was aided by a brisk volume growth across segments, is expected to drive earnings at auto companies for the quarter ended September.

Easing shortage of semiconductors enabled companies to ramp up production and this gave them the much-needed operating leverage.

There was a strong preference for premium models, and coupled with price hikes, this boosted profitability at the firms.

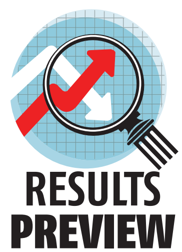
At an aggregate level, net profit at auto firms (excluding Tata Motors) is estimated to increase by a fourth for the July-September quarter over a year ago to ₹6,388 crore, according to Bloomberg's earnings estimate.

Net profit is expected to rise 7.4 per cent quarter-on-quarter with the underlying recovery. Net sales are also expected to go up 17 per cent year-on-year (YoY) on the back of good volume run.

"For the second quarter in a row, we expect earnings before interest, tax, depreciation and amortisation (EBITDA) margin to improve by 310 basis points (bps) YoY and 130 bps Q-o-Q for the auto universe," said a research note from Motilal Oswal.

This has been led by price hikes and operating leverage, despite the residual impact of an increase in raw material cost.

Car market leader Maruti Suzuki is expected to report healthy earnings with profit increasing by 65 per cent to ₹1,708 crore (YoY), according to Bloomberg's estimates.



An improved mix of models is likely to expand the company's ebitda (earnings before interest, tax, depreciation and amortisation) by 189.8 per cent to ₹2,483 crore. On a consolidated basis, Tata Motors is expected to trim its losses to ₹1,167 crore during the September quarter from ₹5,007 crore in the year-ago period.

Net sales are also estimated to advance by 14 per cent. The recovery will be led by an improved performance of the India business even as JLR remains a drag. A research note on the company by YES Securities expects Tata Motors' consolidated revenue to decline 13 per cent Q-o-Q to ₹62,408 crore. This is because JLR revenue is expected to remain flat in the same period at £ 4.4 billion.

Mahindra and Mahindra, Bajaj Auto, Ashok Leyland and TVS Motors are also expected to report healthy earnings as the broad-base recovery across segments continues.

Passenger vehicle and commercial vehicle makers are expected to fare better than the two-wheeler makers as the latter continues to suffer from weak demand.

"After operating through several headwinds in the last three-four years, some of these headwinds are turning into tailwinds. While demand recovery is expected to sustain on a low base, commodity prices have started to moderate, with benefits expected to accrue from Q3 of FY23," said the Motilal Oswal note.

It flagged increase in interest rates and weakening global macros as concern areas for demand. Two-wheeler makers such as Bajaj Auto and TVS are likely to see some headwinds in export markets.

Mitul Shah, head of research at Reliance Securities, sees near-term pressure on exports due to currency devaluation. Sales in the domestic two-wheeler segment would cushion overall two-wheeler sales in FY23, he wrote in a research note.

IN NUMBERS

(in ₹ cr)	Q2FY22	Q1FY23	Q2FY23E
Net sales	66,309	81,727	77,416
Ebitda*	9,425	10,286	8,917
PAT**	5,100	5,946	6,388

*Earnings before interest, taxes, depreciation and amortisation; **Profit after tax. E: Estimate
Source: Bloomberg; Compiled by BS Research Bureau

	QoQ	YoY
Net sales (% change)	-5.3%	17%
Ebitda* (% change)	-13.3%	-5.39%
PAT** (% change)	7.4%	25.3%