Auto sector may hit top gear on volume and price uptick

Commodity price deflation may also help revenue rise up to 15 per cent

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GOING FULL THROTTLE AUTOMAKERS' Q4FY24E

	Revenues	Change %		PAT	Change %	
Company	₹crore	Q-o-Q	Y-o-Y	₹crore	Q-o-Q	Y-o-Y
Maruti Suzuki India	38,307	20.2	24.3	3,764	20.2	43.4
Tata Motors	1,19,621	8.9	13.9	7,067	-0.3	27.1
Ashok Leyland	11,404	23.0	-1.5	860	48.2	20.8
Bajaj Auto	11,182	-6.0	29.1	1,957	-3.7	14.8
Hero MotoCorp	9,292	-5.1	10.2	1,020	-6.7	26.7

Source: Bloomberg

Automobile companies are expected to post 14-15 per cent growth in revenue during the last quarter (Q4) of the financial year 2023-24 (FY24), supported by healthy volume growth, commodity price deflation, price hikes and favourable currency movement.

According to several brokerages, the Ebitda (earnings before interest, taxes, depreciation, and amortisation) growth is estimated to come in around 25-30 per cent year-on-year (Y-o-Y).

There would be a strong 25-26 per cent volume growth in two-wheelers (2Ws) and an 11-12 per cent rise in passenger vehicles (PVs), owing to healthy demand from urban and rural areas and pending order books.

According to analysts at Nuvama Institutional Equities, Domestic 2W volumes have registered a growth of nearly 25 per cent Y-o-Y in Q4FY24, aided by better demand, pickup in demand of economy motorcycles, and better finance availability.

Domestic PV industry volumes registered around 11 per cent Y-o-Y improvement on the back of pending order books and healthy demand.

Depreciation of the Indian rupee against the pound/euro is also another key factor aiding the profitability of these companies. The benign commodity prices, along with volume growth, are expected to support the margins of these segments, felt brokerages.

Prabhudas Lilladher analysts said the commodity index witnessed a drop of nearly 11 per cent in Q4 FY24 from last year, which should continue to aid margins of the companies during the quarter under review and Q1 FY25.

"Overall prices of the raw material basket have largely remained favourable while strong volume growth for coverage companies could result in better operating leverage leading," said a research note by Prabhudas Lilladhar (PL).

According to analysts, growth in the PV industry has been mainly due to growth in the sale of sport utility vehicles (SUVs). The healthy dispatches in SUVs were led by order book execution and consistent traction for new model launches.

Analysts expect Maruti Suzuki's revenue to grow, driven by volume expansion and an increased share of utility vehicles (UVs) in the product mix. This is likely to aid in margin expansion.

Prabhudas Lilladher analysts said: "The mix of UVs increased from 26 per cent in Q4FY23 to 36.7 per cent in Q4FY24, which should aid in Ebitda margin expansion of 223 basis points (bps) Y-o-Y and 95 bps Q-o-Q."

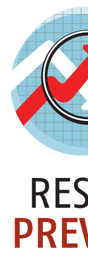
Tata Motors' revenue is expected to see double-digit growth Y-o-Y supported by healthy volume growth, a higher mix of UV and consistent performance in Jaguar Land Rover (JLR) which will also support the margin of the company. PL analysts see Tata Motors revenue to grow by 17.3 per cent Y-o-Y. The consistent performance of JLR and a higher mix of UVs will drive the Ebitda margin expansion of 183 bps Y-o-Y. Profit after tax (PAT) is expected to grow by 9.7 per cent Y-o-Y.

In the two-wheeler segment, Prabhudas Lilladher's analysts said Bajaj Auto's revenue will be driven by a 25 per cent Y-o-Y expansion in its volume and stable raw material costs. However, the increase in the share of EVs in the portfolio is likely to impact the Ebitda margin of the company.

"Despite favourable volume growth and stable raw material cost, the mix of EV has increased in the portfolio which could suppress the Ebitda margin expansion to 48 bps Y-o-Y," Prabhudas Liladhar said.

For Hero MotoCorp, the double-digit revenue will be aided by volume growth and higher Average Selling Price (ASP). Ebitda margin is expected to see an improvement from the year-ago period.

"Improved product mix clubbed with a stable raw material price to result in Ebitda margin expansion by 114 bps Y-o-Y," said analysts at Prabhudas Lilladher.



However, the volume growth in Commercial vehicles (CVs) is likely to be muted in the quarter due to the high base and likely slowdown in project implementations before elections.

According to analysts at Motilal Oswal, "CV wholesales may fall around 3 per cent Y-o-Y over a high base of last year and also due to lower demand before elections. In CVs, medium and heavy commercial vehicle (MHCV) volumes could decline 6 per cent Y-o-Y, while (Light Commercial Vehicle) LCV volumes are expected to remain flat."

The muted growth in volume is expected to result in a marginal drop in revenue of Ashok Leyland as its volume declined by nearly 6 per cent Y-o-Y. However, the cost-cutting initiatives and softer raw material prices are likely to lead to Ebitda margin expansion for the company.

The tractor wholesales are likely to see a decline of 19 per cent Y-o-Y due to weak demand sentiment and a high base of last year. On the other hand, 3 Wheeler volumes are expected to grow 10 per cent Y-o-Y.